

ERF RESEARCH REPORT
*Project on “Promoting Competitiveness in
Micro and Small Enterprises in the MENA Region”*

MICRO AND SMALL ENTERPRISES IN LEBANON

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Preface

This is the first country report carried out under the project on “Promoting Competitiveness in Micro and Small Enterprises” (MSE). ERF has selected the MSE report of Lebanon to be the first produced in the series, to acknowledge the efforts by the country team to fulfill their obligations despite the progressing tension in the region. This is yet another testimony to the resilience of the Lebanese people.

Initiated in 2000 by ERF, the project’s main objective has been to expand the knowledge on this sector in the Middle East and North Africa (MENA) region, with the ultimate aim of designing relevant policies and specific programs to help this sector fulfill its enormous growth potentials. Constituting an average of 95% of the number of enterprises in the region, it is presumed that promoting this sector will have a positive spill-over effect on the economies of the region.

Discussions on the results of the project have pointed to an emerging consensus that it will be filling a knowledge gap related to the micro and small enterprises sector in the MENA region. Policies and strategies designed to promote this sector have not been adequately targeting their needs, and thus this project is considered to be of great relevance to the policy making process.

Specifically, the main contributions may be summarized as follows:

- The database gathered through the project based on field surveys is considered unique, as to the number of enterprises covered (18,000), and the information produced, including information on the enterprise, the entrepreneur and the household. A special focus on women entrepreneurs have been made throughout the survey. This mine of data will undoubtedly provide background information that enables policy makers to design relevant policies.
- The “Policy Briefs” gives a concise summary of the outcome of each country study and highlights the recommendations reached based on the analysis.
- The current Country reports series is prepared based on the findings of the surveys, detailed information about the performance of the enterprises, determinants of success and prospects for the future are given. Special focus on the status of women entrepreneurs is also made.
- The Synthesis report will have a comparative analytical approach of the case studies of the four countries. This report will assess the MSE sector in the four countries and will draw relevant policy recommendations for the region.

It has been evidently shown that promoting this sector could contribute to the solution of the increasing unemployment problem in the region, and a means to alleviate poverty through income generation. The spillover effects that this sector if properly developed will positively affect the development of the countries concerned.

This report on Lebanon represents the outcome of a large and long research process. The field survey gathered 3,000 micro and small enterprises and was performed under difficult conditions. The non-availability of (or access to) the basic national database constituted one of several challenges that the Lebanese team have managed to overcome. I quote the comment of the Peer reviewer of the report: *“I am particularly impressed with the careful design of the survey particularly in the absence of a stratified random sampling technique given that the survey had to develop the database of the components of the sector in the first place”*. If anything, there is no doubt that the database gathered on the MSE sector in Lebanon will make a substantial contribution and would fill a gap at the national and regional level.

The analysis of data and the background research undertaken by the Lebanese team, under the supervision of Dr. Kamal Hamdan was the subject of a national debate during the Micro and Small Enterprises final conference that took place in December 2005.

Representatives of the Lebanese government, private sector, academics, banking, social funds, consultants and media participated in the conference and expressed their interest in the outcome of the project and the database in particular.

By presenting this unique, serious and up to the standard work, ERF is hoping to have satisfied two important objectives of its own mission: to contribute to filling a knowledge gap in the region; and to have contributed to drawing targeted policies by reaching out to the policy makers.

Samir Radwan
Managing Director

Executive Summary

1. Background, Objective and Methodology of the Study

Similar to most countries in the region, economic growth and technological progress have been slow in Lebanon, with a predominance of small scale enterprises in the economy. The private sector has traditionally been a major partner in the development of the country, also with a dominance of micro and small enterprises that constitute the bulk of private sector activity. Thus, the MSE sector (i.e. Micro and Small enterprises) has the potential to provide substantive support to the development of the country in the medium and long terms. This is especially true as a large proportion of new jobs generated are in the informal sector which is characterized by low productivity, poor working conditions, and high vulnerability to shocks.

The main objective of the study is to expand the knowledge of the economic and social characteristics under which the MSEs and the informal sector operate in Lebanon in order to address its contribution to growth and employment generation, especially for the poor. In this context, the study examines the sectors' current status, existing constraints and potential for growth. This enhanced understanding is expected to permit an expansion in policies and programs that would allow this sector to fulfill its potential growth with expected spin-off effects on the national economy. Such a framework is crucial, especially given the substantial share of the said sector in the Lebanese economy and in light of the changing environment towards globalization and trade liberalization. The latter trends present a threat to traditional incomes and to the livelihoods of a major disadvantaged segment of society.

The study specifically intends to provide insights into the factors determining the competitiveness of MSEs, suggest effective ways for the involvement of the various government levels to support higher income and competitiveness of the sector, identify constraints and potential linkages with the formal private sector, and determine gender differences in the sector.

Two methodological tools were adopted and applied in this study, including (a) sampling approach that governs the selection of a representative sample of enterprises, taking into account several variables (size, geographical distribution, gender of the entrepreneur, etc.) and (b) the survey estimation that was used in order to generate results at the national level. The Study provides details on the sampling approach. It is noted that the final sample amounted to 2,948 MSEs.

2. Overview: The MSEs in Lebanon

Lebanon's economy is dominated by MSEs¹. The 1996 census of buildings and establishments, conducted by the Central Administration for Statistics (CAS), evaluates the total number of existing enterprises at 198,000. Small enterprises employing less than five employees make up the bulk of operational enterprises, constituting 88% of the total, while those employing less than 50 individuals make up 96% of the total. These figures increase respectively to around 91.3% and 99.2% if we exclude the unclassified enterprises² (3.26% of total enterprises). Cumulatively, enterprises with less than 50 employees generate the majority of employment opportunities in the country, accounting for 530,000 employees, or 51% of the total working population.

Economic activity in Lebanon is dominated by trade, and most enterprises are concentrated in the services and agricultural sectors, with the services sector encompassing the highest percentage of workers. The deformation in the structure of the sectors has been a consequence of several factors, including the fragmentation of markets as a result of the civil war, abrupt urbanization, and others.

On the gender front, women participation is estimated at 22% of the working population (1997), and 29% of permanent employees. However, variations are noted with the size of enterprises, where women participation is positively correlated with the size of the enterprise³, and is highest in medium scale enterprises. Variation also exists based on enterprise economic activity, with increased participation in education, health, textile, leather and garment industries.

¹ Micro and Small Enterprises (MSE) are enterprises that employ less than 50 employees.

² Enterprises with unknown size (in terms of number of employees)

³ i.e. the proportion of women employees in larger enterprises is higher than in smaller enterprises.

The overall environment in Lebanon provides several points of strength that can be utilized to enhance the role of MSEs in poverty alleviation and employment generation. These include a liberal economy that provides an opportunity for the development of the private sector; a flourishing banking sector that could be used to strength MSEs if a favorable macro-economic environment is in place; a rich human resources base; and the existence of a number of government interventions to develop the MSE sector.

On the other hand, the MSE sector faces a number of constraints that should be overcome if the sector is to achieve its optimal utility. These include the increasing move towards liberalization and globalization, hence a decline in protection initiatives, the lack of access to new technologies, limited access to financial/credit services from formal and informal sectors, distortions in the structure of costs and prices, as well as the inadequacy of basic infrastructure and a shortage of skilled labor in some professions. In addition, MSEs operate under obsolete regulations, where Lebanon still does not have a regulatory framework that organizes the work of MSEs.

3. The Survey: Main Findings

The following section presents the main findings of the survey, based on the completed questionnaires (2,948). The analysis addresses different issues including those stated in the Terms of Reference.

3.1 Size and Sector of Activity

Lebanon is dominated by MSEs, especially by enterprises employing less than ten workers. The survey reveals that 97% of MSEs employ less than ten individuals, 46.8% employ between 2-4 workers, while enterprises with only one employee account for almost 45% of the sample. Enterprises employing 10-49 workers account for only 2.7% of the sample. The prevalence of the informal one-person enterprises is evidence of the entrepreneurial spirit that prevails over the Lebanese informal economy (it should be noted that this prevalence is also present in many countries in the region). It might also be an indication of the prevalence of this sector within poor disadvantaged categories of the population, with limited enabling factors for such enterprises to grow beyond the “one-person” category.

The survey also reveals a prevalence of trade as the major economic activity of MSEs, only to be followed by “other” economic activities, and to a lesser extent industry. Enterprises in the category that encompasses hotels and restaurants do not constitute more than 5.1% of surveyed enterprises. “One-person” enterprises deal mostly with trade issues, and the larger the size of the enterprise gets, the less dominant are trade activities.

Female-headed enterprises account for around 8% of surveyed MSEs, with noted variation between the different sectors of activities. Female-headed enterprises are more concentrated in the trade sector and are highest for "other" sectoral activities.

3.2 Age of Enterprises

Around a third of the surveyed enterprises were established after the year 2000. In addition, most enterprises started operations in 1995-1999. What is most significant, perhaps, is that 71% of surveyed enterprises were established after the year 1990, which is the year that marked the end of the 15-year civil strife in the country, and which resulted in high expectations about the economic future of the country, as well as expected re-grouping of the population due to the returnee process.

The date of establishment of surveyed MSEs was found to vary based on the size (in terms of employees), the sector of activity, gender, and geographic location. Smaller enterprises are younger; work in trade, hotels and restaurants; and are female-run.

Geographic location also impacts the year of establishment of MSEs, where Beirut seems to have a higher ability to sustain enterprises than other regions, as it has the largest percentage of older enterprises. Conversely, South Lebanon witnessed the establishment of the largest portion of its MSEs in 2000-2004, which is the period directly following the Israeli withdrawal from the region. Furthermore, Mount Lebanon has the largest percentage of enterprises that are less than one year old, while North Lebanon has the lowest. The distribution of MSEs according to date of establishment and

geographic region illustrates the importance of access to basic infrastructure and services for the establishment of enterprises.

In this sense, less developed regions, such as North Lebanon and the Bekaa, witnessed higher enterprise activities in the period directly following the civil war (1990-1994) which coincided with increased efforts for the reconstruction of basic infrastructure and services in regions outside Beirut. An examination of the rate of enterprise establishment in the last two years (i.e. 2002-2004) indicates a lag in MSE establishment in almost all regions, with the exception of Beirut and Mount Lebanon. This can be explained by the increased attraction of tourism and the services facilities provided mostly in these two regions.

3.3 Geographic Distribution of MSEs and Other Variants

Location affects the distribution of MSEs. Generally speaking, more developed regions tend to have larger enterprises, while poverty stricken underdeveloped regions are more than proportionally dominated by micro enterprises. Smaller MSEs are observed in more deprived areas of the country, where the share of one-worker MSEs increases from 32.7% in Beirut to 56.1% in North Lebanon and 47% in the Bekaa. Furthermore, Beirut and Mount Lebanon are the only regions that have above average concentration of the 5-9 and 10-49 categories of MSEs. This indicates the high correlation between the size of the enterprise and the development of the region and could be attributed to better access in Mount Lebanon and Beirut to infrastructure, services, financing, and markets, especially since North Lebanon is the most disadvantaged region of the country with the highest incidence of poverty.

3.4 Seasonality of Activity

The survey showed that most MSEs have a permanent activity (97%), operate in one location only (60%), and do not employ partnership ventures (only 12% of surveyed entrepreneurs have partners). The existence of another location in which the enterprise operates increases with its size. In addition, the bigger the size of the MSE, the higher is the probability of partnership ventures.

3.5 Working Conditions

Most of the surveyed MSEs work 6 days per week with an average number of working days of 6.3 per week. Cross-tabulation analysis shows that there are slight variations based on gender and sectoral activities, where female entrepreneurs work less than male entrepreneurs although the results are not significantly different. No significant differences in the average working time appear with the size and location of MSEs. However, it appears that services sectors (trade and tourism) have significant longer working time than other economic sectors, with an average number of working days per week of 6.7 in hotels and restaurants.

The MSEs' place of work is mainly constituted of a "Shop" (89.3%). The size of MSEs is an important factor that impacts work place, and the percentage of workshops increases with size. Around 63% of the workplaces are rented, while 32% are owned.

The travel duration (in minutes) from home to work is not long (7.8% of surveyed MSEs have a travel duration of more than 30 minutes, while traveling time is less than 5 minutes for 15.1% of surveyed MSEs). The close distances between home and work is predominant in the one-employee category of MSEs, who live usually near their workplace.

Access to infrastructure is an enabling or constraining factor for the work of MSEs. In general, most surveyed enterprises have access to water (65%), electricity (85%), sewerage systems, and roads (70%). A lower percentage has access to telecommunication networks, less than 50%, and transportation facilities for goods and workers.

Access to information and advisory services is important for optimizing efficiency and effectiveness of enterprises. The survey found that a limited number of surveyed MSEs have access to such services, whether in terms of information or comparative experiences. The survey also showed that larger MSEs have more access to such services. Whenever this type of assistance is available, it is usually done by business associates and is positively evaluated for its impact on the enterprise.

3.6 Major Constraints

The most prominent constraints of surveyed MSEs seem to include securing initial capital for business start-up, and high tax rates. One third of surveyed MSEs indicate that ensuring acceptable profit is a major concern, and so are cumbersome licensing/registration procedures, custom duties and tax administration. Access to financial services is viewed as a constraint by 24% of MSEs, while labor issues and availability of raw material do not seem to pose any significant difficulties to surveyed MSEs. Some MSEs face problems in securing enough demand for their outputs, but competition was not raised as a crucial constraint compared to other issues.

The survey indicated that 42% of MSEs are constrained by lack of access to credit facilities. In this regard, the results of the field survey show that 8.3% of MSEs currently have a credit/loan (mainly larger MSEs). The main source of loans is banks (69%), but also friends/relatives (18%) and 6% from business associates. Around 56% of MSEs who are under loans declared that they are satisfied with respect to the loan conditions.

3.7 Customer and Market Structures

Surveyed MSEs depend on households as their major consumers- 94% of surveyed MSEs have their consumer base as households. Their consumer base does not include government, cooperatives, private sector enterprises, or foreign firms. This dependency on households as the major consumer base is a main characteristic of MSEs.

Furthermore, most MSEs depend on the surrounding local market for marketing their output, where the local market constitutes the main marketing base for 96% of MSEs. They also depend on the market in their surrounding region significantly (51% of MSEs), but they do not access national or international markets.

3.8 Ownership

Most of the surveyed MSEs are sole proprietorships (93.5%). Taking into consideration the dominance of this type of ownership, MSEs in the industry, hotels, and restaurants' sectors are more prone to employing other parts of partnerships, especially limited liability and joint stock. In addition, the size of MSEs also has an impact on the type of ownership, where bigger enterprises move away from the sole proprietorship type of ownership. Gender does not seem to have an impact on the type of ownership.

Notwithstanding the almost total dominance of sole proprietorship over the ownership structure of MSEs, those working in industry and in hotels and restaurants have a higher percentage of enterprises with partnerships and limited liability forms of ownership. In addition, hotels and restaurants have the highest percentage of MSEs falling under the joint stock form of ownership.

The size of MSEs also has an impact on the type of ownership. The size of the enterprise is negatively correlated with the sole proprietorship form of ownership. The larger the enterprise is, the less likely it is to remain a sole proprietorship. In addition, a joint stock form of ownership is most prevalent in the 10-49 category, reinforcing the correlation between size and more complex forms of ownership.

3.9 Formality and NSSF Membership

Lebanon, like most developing countries, has a large informal sector with widespread informal enterprises and informal employment. The survey examines this aspect through exploring enterprise commercial registration, registration in the national social security fund, and registration with tax authorities.

It is noted that almost half of the MSEs surveyed are not commercially registered (this figure exclude those which are not legally required to register). However, MSEs tend to legalize their status and register commercially as they become older and grow. In addition, female-run MSEs indicate a higher level of non-requirement for registration. Enterprises have different registration levels according to the sector of activity as well, where higher registration levels are observed in the industrial sector. The degree of commercial registration is also linked to the size of MSEs, where there is a higher tendency for registration as the size of the enterprise becomes bigger.

A lower percentage of surveyed enterprises participates in the government insurance scheme, known as the NSSF (only 20%). Again, gender (slightly higher for females), sector of operation (higher in the hotel and restaurant sector, and in the industrial sector), size (larger enterprises are more likely to be registered) and commercial formalization play a role in determining the likelihood of NSSF registration.

Around 44% of surveyed enterprises are registered with the taxation department, while 39% are not, and 17% are not required to register. Again, as was the case in the commercial and NSSF registration, a higher number of female-operated MSEs indicate that they are not required to have tax registration. Trade enterprises and larger enterprises have the highest incidence of tax registration.

3.10 Initial Capital and Access to Credit

Due to the family nature of micro and small enterprises in Lebanon, it is observed that the initial start-up capital for the MSE is secured through family, and not business, networks. The survey indicates that own savings constitute the major source of initial start-up capital of MSEs in the country, followed by inheritance. The use of “informal” and “formal” sources of capital for business start-up varies based on the size of the MSE, its sector of activity, and gender.

Few of the surveyed MSEs have had access to formal loans (4.2%) in their start-up phase. Of these, most of the loans are obtained from banks. Access to credit varies with the sector of activity and the size of the enterprise; however the results are non-conclusive due to the low number of MSEs accessing formal credit from the overall sample.

3.11 Average Present Value of Enterprise

The average present value⁴ per enterprise in Lebanon is \$59,446, with variations according to gender, sector, and size. The survey indicates that male-operated MSEs have almost double the present value than those operated by females. In addition, the highest present value is found in the hotel & restaurant sector, followed by industry; and larger MSEs have a higher average present value.

3.12 Value-Added of MSEs

Value-added of enterprises, especially MSEs, has been difficult to obtain as a result of the entrepreneurs’ reluctance to provide accurate information on these figures, and because of misleading background information. Nevertheless, the survey analyzes the value added over the current year and last year to compare performance over time. Value added varies with different factors, including size (it increases with larger MSEs); sector of activity (hotels and restaurant sector has the highest value-added); location (highest in the capital of Beirut); gender (female-run enterprises have lower value-added figures than male-run enterprises); and access to new technology (increased access leads to increased value added). Also internal organization and higher present value of the enterprise increase the value added of enterprises.

Overall, there have been noticeable improvements in value added performance of enterprises and workers over corresponding figures for the year preceding the survey. Such improvements, which were not uniform, and varied in terms of degree, fit to a great extent the improvement in the overall GDP growth rate during 2003/04, which, for the first time since 1997, resumed its ascending trend, reaching around 5% in that period.

3.13 Characteristics of Entrepreneurs

In the context of the survey, 2,948 entrepreneurs were interviewed, the majority of whom are owners. It is noted that the highest percentage of entrepreneurs are in the 30-49 age bracket, with gender differences. In addition, most MSEs were established at an early age, although with gender variations too, where female entry into this market is at an older age. More than two-thirds of surveyed entrepreneurs are married, with a higher number of single, divorced and widowed female entrepreneurs. This is primarily a manifestation of the loss of livelihood that un-married females, especially those who are widowed or divorced, face in a society like Lebanon. The percentage of widowed female entrepreneurs is more than 11 times that of widowed males, and the percentage of divorced female entrepreneurs is more than 5 times that of males.

⁴ It includes the present value of the following assets: land, buildings, equipments and tools, inventory and cash.

The distribution of entrepreneurs according to education levels reveals that 16.3% are either illiterate or have completed only the first elementary cycle of education, while 24.7% are either high school or university graduates. Illiteracy is higher among female entrepreneurs, but the number of females who have completed schooling or university studies is also higher.

In terms of vocational training, less than a tenth of the sample indicated that they have had access to such type of education. Most of the surveyed entrepreneurs have 10-19 years of experience, followed by those who have 5-9 years of experience and 1-4 years of experience. In addition, previous employment history differs significantly between entrepreneurs, where around 54% were employees in their earlier occupation, while 25% worked on their own account, 8.5% were family workers, while only 8.4% were employers. Entrepreneurs opted to change occupation for several reasons, mostly low earnings, and bad working conditions.

The survey inquired about constraints facing women entrepreneurs and revealed that the largest constraint faced by women entrepreneurs is personal harassment, followed by problems related to setting up the enterprise, hiring workers, and to a lesser extent marketing and joining business associations.

3.14 Employment Generated by MSEs in Lebanon

One of the major attributes of MSEs is their contribution to employment. Due to the fact that these enterprises make up the bulk of existing enterprises in any given country, their hiring practices significantly impacts national employment and unemployment trends. The enterprises surveyed in the context of this study in Lebanon generate 7,369 jobs, translating into 2.5 employees per enterprise. The study indicates that the major contributor to employment in MSEs is the 2-4 employee category accounting for 46.8% of enterprises and 47.2% of employment. Most generated employment is in trade, followed by industry and hotels and restaurants.

3.15 Mixed Income and Wages

Mixed income is equivalent to the profits generated by MSEs and is calculated on a monthly basis. The study revealed that the average mixed income per owner/manager is \$1,486/month. As with other parameters of analysis in the context of this study, the level of mixed income is affected by gender, sector, size and location (higher for males, in hotel and restaurants and trade activities, in bigger enterprises, and those located in Beirut).

Although the number of responses is not representative, the survey reveals that the average monthly wage is \$280/employee, and is higher in female-owned enterprises and increases according to the size of enterprise, and in the hotel and restaurant sector.

In terms of household income, the highest percentage of surveyed households earn a monthly income in the LBP 1,200,000-1,600,000 range, followed by those earning LBP 800,000-1,200,000 and 1,600,000-2,400,000 (17%). Around 7.7% of households earn less than LBP 500,000. It is observed that the distribution of the MSE household incomes is higher than the national averages. Monthly household incomes increase drastically with the size of the enterprise, and vary with the geographic location.

3.16 Future Expectations

The lowest growth expectations are in employment levels and in the surface of economic unit, with the biggest contraction likely to occur in revenues. The biggest increase in expectations is in domestic marketing, followed by output, new products, revenues and technology. Female entrepreneurs are more optimistic than male entrepreneurs when it comes to employment, revenues, and acquisition of modern technology. Male entrepreneurs are more optimistic when it comes to domestic sales, exports, and assets.

3.17 Performance

Performance indicators are influenced by many factors, including the size of the enterprise, gender, geographical location, and sector of activity. The current survey examined the performance of MSEs through a composite indicator that includes two parameters: the monthly value-added per worker and the monthly sales per worker. The analysis was based on a fraction of the total MSEs included in the

sample (20% of the surveyed enterprises). This is due to the fact that around 600 MSEs answered to these two parameters.

The analysis of performance indicates that performance is directly related to the size of the firm, with the exception of one-employee enterprises. As the number of employees increases, firms tend to record better performance levels, with a peak for MSEs with 10-49 workers. Performance was also assessed based on clustering, and unlike global trends, MSEs that do not belong to a cluster were found to achieve better performance levels. This may be a result of the nature of clusters in Lebanon, which consist of nothing but firms in the same, or similar, line of business. On the other hand, the internal organization of MSEs enhances their performance as a result of, among others, specialization and labor resource management.

As expected, male entrepreneurs do better than female ones. This is explained through the categorization of females in low performing jobs and levels that enjoy low added values and profits. Performance is found to peak when the age of the entrepreneur is in the 30 to 39 years category. Educational attainment is also positively related to performance, where the latter increases with the entrepreneur's number of years of formal education, with highest performance recorded in firms with entrepreneurs who have attained at least a university bachelor's degree. The same is true in the case of entrepreneurs with training apprenticeship experience.

The survey showed that formalized enterprises perform significantly better than informal ones. Similarly, MSEs that employ up-to-date technologies perform considerably better than those that use traditional ones. Also, firms that have access to basic infrastructure show higher performance levels.

The study also showed that the level of performance is better when the firm's clientele base is constituted of foreign customers, while least performing businesses are those whose main clients are public enterprises and domestic NGOs.

Finally, the survey indicated that the level of performance, when compared to the number of working hours, reach a peak at 48 working hours per week, after which it starts to fall. This trend remains valid until working hours per week reach 72, after which the level of performance rises again. In this case, a double-shift system is installed, representing nearly the same level of performance as that of a single-shift one.

I. Background, Objective and Methodology of the Study

I.1 Background

Similar to most countries in the region, economic growth and technological progress have been slow in Lebanon, with a predominance of small scale enterprises in the economy. The private sector has traditionally been a major partner in the development of the country, also with a dominance of small and micro enterprises⁵ that constitute the bulk of private sector activity. The MSE sector has, thus, the potential of providing substantive support to the development of the country in the medium and long terms. This is especially true as a large proportion of new jobs generated are in the informal sector – a sector characterized by low productivity, poor working conditions, and high vulnerability to shocks.

This overall context necessitated detailed research of the sector in order to be able to better understand the sector's contribution to value added and employment in the country as a whole, and to be better able to target MSE-specific policy and program interventions.

Research on the topic in Lebanon is scarce, making this research endeavor the largest known MSE research project undertaken in the country in the past decade or so. The earlier desk reviews and the data base gathered in the field survey will enable policy makers and researchers to understand the characteristics of MSEs, to appreciate the constraints faced by the sector, and to realize the potential laden in some of the niche activities and enterprises.

The research project is constituted by three desk reviews, including an overview of the sector, an analysis of the institutional aspect governing the sector, and financing. In addition, the research

⁵ Micro enterprises are defined as those which are run on a full time basis, often constituting the major source of income for households, and employing no people except the owner and/or family members. Small enterprises have a short business cycle and cover domestic consumer needs, mostly using local products and employing simple management tools.

project includes a field survey, the details and findings of which are detailed in the third part of this report.

I.2 Objective of the study

The main objective of the study is to expand the knowledge of the economic and social characteristics under which the informal and MSE sector operates in Lebanon in order to address its contribution to growth and employment generation, especially for the poor. In this context, the study examines the sectors' current status, existing constraints and potential for growth. This enhanced understanding is expected to permit the formulation of policies and programs that would allow this sector to fulfill its potential growth with expected spin-off effects on the national economy. Such a framework is crucial, especially given the substantial share of the said sector in the economy of Lebanon and in light of the changing environment towards globalization and trade liberalization, and the subsequent threat to the protection of traditional incomes and livelihoods of a major disadvantaged segment of society.

The study specifically intends to provide insights into the factors determining the competitiveness of MSE, suggest effective ways for the involvement of the various levels of government to support higher income and competitiveness of the sector, identify constraints and potential linkages with the formal private sector, and determine gender differences in the sector.

The analytical variables included in the conceptual framework of the study include inputs (human resources, facilities, technology, financial status, marketing, and information), environment (enabling and inhibiting factors- infrastructure and regulatory framework, and linkages), processes, and outputs (contribution to economy, employment, and income).

I.3 Methodology

Two methodological tools were adopted and applied in this study, including (a) sampling approach and (b) sample correction. The sampling approach, developed in section 3.1 below, was implemented in order to obtain a representative sample of enterprises, taking into account several variables such as the size of the enterprise (number of employees), geographical distribution (Mohafazats), and gender (of the entrepreneur). The sample correction, developed in section 3.2, was used in order to generate results at the national level.

I.3.1 Sampling Methodology

A. Evaluation of the existing data

The target population of the study is the MSEs (i.e. Micro and Small Enterprises -enterprises with less than fifty employees). In accordance with the terms of reference of the study, the scope of work excluded the following activities:

- Agricultural activities
- Non-market activities
- Illegal activities
- Production for own use
- Mobile vendors
- Domestic services
- Professional services (doctors, lawyers and accountants)
- Enterprises employing more than 50 workers.

Table 1 outlines the geographic distribution of the target population.

Table 1: MSEs Distribution per Mohafazat⁶

Mohafazat	Number of MSEs	% of total
Beirut	23,415	12%
Mount Lebanon	67,325	36%
North Lebanon	42,742	23%
Bekaa	26,328	14%
South Lebanon	18,318	10%
Nabatieh	9,943	5%
Total	188,071	100%

The selection of the representative sample faced three main constraints:

- The lack of reliable gender-disaggregated data that could be used as a base for the gender distribution of the sample, as this dimension has not been addressed by the 1996 census;
- The lack of updated data since 1996, which effectively did not take into consideration the significant changes that occurred in the sector over the period 1996-2004;
- The absence of an exhaustive list of MSEs' addresses, which made it impossible to apply a full randomization approach in selecting the sample MSEs.

The above necessitated conducting a preliminary field survey to address the above constraints and obtain the exact list of addresses, as well as the needed data that would allow the determining of sampling rates pertaining to gender distribution, updated geographical distribution, and size distribution (number of employees).

B. Sampling methodology of the preliminary field survey

A representative sample of clusters (“ilots” or Primary Sampling Unit) was selected. In each of the selected clusters a census of all existing MSEs was undertaken and a database was established. The data gathered through a small questionnaire included the following variables:

- Name, address and phone number of the MSE
- Name and gender of the entrepreneur
- Detailed sector of activity
- Number of employees

The selection of clusters sample was constructed as follows:

Lebanon is administratively divided into six major administrative units (Mohafazats) and twenty six districts or smaller administrative units (Caza). Each Caza is also composed of smaller administrative units called “Circonscription Foncière” (CF) with a total number of 1403 CFs all over Lebanon. Furthermore, each CF is divided into smaller geographic units called “ilots”, or clusters or primary sampling unit, bordered by streets and/or natural barriers, each enclosing around 40 buildings. Hence, Lebanon was divided into around 13,000 clusters representing around 518,000 buildings.

The sampling methodology used for the selection of the sample of clusters was implemented as per the following four phases:

Phase 1: The preliminary field survey selected a sample of 100 CFs based on MSE’s distribution per Mohafazat. For example, Beirut represents 12% of total MSEs, therefore the preliminary study selected 12 CF in Beirut. In Mount-Lebanon the study selected 36 CF knowing that Mount-Lebanon represents 36% of total MSEs in Lebanon.

Phase 2: In each Mohafazat, CFs were sorted by the number of MSEs included in each CF (based on the results of the “Census of establishments and buildings, Central Administration of Statistics-1996”). The study selected CFs with high density of MSEs.

Phase 3: The study then listed all clusters included in each selected CF. Taking into account time and budget constraints, 200 clusters were selected, based on a randomized process. All clusters had

⁶ Census of Establishments and Buildings, Central Administration for Statistics- 1996

the same probability to be selected in each selected CF. The study selected 2 clusters in each CF of the sample.

Phase 4: Finally, a national sample of 200 clusters was prepared. A technical team prepared GIS maps for each selected cluster. Maps included the following information: CF boundaries, cluster boundaries, layer representing main and secondary roads, and topography map.

Table 2 illustrates the selection of the clusters for obtaining a representative sample within available budget and time.

Table 2: Cluster Sample per Mohafazat

Mohafazat	Number of CF	Number of Selected CF	Number of Clusters in Selected CF	Number of Selected Clusters
Beirut	12	12	474	24
Mount Lebanon	494	36	1,571	72
North Lebanon	392	23	399	46
Bekaa	181	14	323	28
South Lebanon	211	10	309	20
Nabatieh	113	5	79	10
Total	1,403	100	3,155	200

C. Results of the preliminary field survey

A team of 55 trained surveyors listed all MSEs included in the 200 selected clusters over a period of two months. Tables 3, 4 and 5 illustrate the results of the field survey, outlining the sample distribution per Mohafazat, gender and size.

Table 3: MSE Distribution per Mohafazat and Gender (preliminary field survey)

Mohafazat	Total	Total Male	Total Female
Beirut	548	490	58
Mount Lebanon	2,229	2,004	225
North Lebanon	2,112	2,015	97
Bekaa	2,002	1,933	69
South Lebanon	1,514	1,354	160
Nabatieh	771	712	59
Total	9,176	8,508	668

Table 4: Male Entrepreneurs–MSE Distribution per Mohafazat and Size (preliminary survey)

Mohafazat	Total Male	1 Empl.	[2-4] Empl.	[5-9] Empl.	[10-49] Empl.
Beirut	490	171	241	54	24
Mount Lebanon	2,004	801	975	143	85
North Lebanon	2,015	1121	811	61	22
Bekaa	1,933	907	912	69	45
South Lebanon	1,354	598	692	49	15
Nabatieh	712	306	373	27	6
Total	8,508	3,904	4,004	403	197

Table 5: Female Entrepreneurs–MSE Distribution per Mohafazat and Size (preliminary survey)

Mohafazat	Total Female	1 Empl.	[2-4] Empl.	[5-9] Empl.	[10-49] Empl.
Beirut	58	8	36	11	3
Mount Lebanon	225	118	92	10	5
North Lebanon	97	61	35	1	0
Bekaa	69	33	34	1	1
South Lebanon	160	80	77	3	0
Nabatieh	59	42	15	2	0
Total	668	342	289	28	9

It is important to note that the above-mentioned results are representative at the Mohafazat level only, but not at the national level. In fact, the sampling methodology was used to create a database that includes information about gender and size in each Mohafazat. Therefore, all the results obtained should be read in a horizontal approach, i.e. per Mohafazat. As such, the preliminary field survey provides missing information on the real addresses of the enterprises and the distribution of MSEs per gender and size (in each Mohafazat). Table 6 shows how figures should be analyzed.

Table 6: MSE Distribution per Gender and Size in each Mohafazat (preliminary field survey)

Mohafazat Size	Male				Female				Total	
	1	[2-4]	[5-9]	[10-49]	1	[2-4]	[5-9]	[10-49]		
Beirut	31%	44%	10%	4%	1%	7%	2%	1%	100%	
Mount Lebanon	36%	44%	6%	4%	5%	4%	0%	0%	100%	
North Lebanon	53%	38%	3%	1%	3%	2%	0%	0%	100%	
Bekaa	45%	46%	3%	2%	2%	2%	0%	0%	100%	
South Lebanon	39%	46%	3%	1%	5%	5%	0%	0%	100%	
Nabatieh	40%	48%	4%	1%	5%	2%	0%	0%	100%	

The combination between these statistics and the statistics obtained from the Central Administration of Statistics (CAS) related to Mohafazat distribution, allows us to create a final table which represents the MSEs distribution (per Mohafazat, size and gender) at the national level.

In other terms, the study takes the results related to gender and size distribution in each Mohafazat from the preliminary field survey, and the results related to the Mohafazat distribution from CAS. The combination of these two sources of statistics leads us to the matrix detailed in Table 8.

This matrix is essential for the sample correction. In fact, whatever sampling rates will be used during the final field survey, corrections will be done according to this matrix in order to get significant results at the national level. The real use of this matrix is developed in section 3 of the report.

On the other hand, it is important to note that the results of the preliminary field survey (cluster census of MSEs) were cross-checked with national results published by CAS. This cross-testing was applied to the size distribution per Mohafazat in both studies, as the only variable in common in both studies, and no significant differences appeared. Table 7 shows the comparison between CAS results and the preliminary field survey results related to the size of the enterprise.

Table 7: Size Distribution of MSEs per Mohafazat (comparison between CAS and CRI results)

Mohafazat Size	Preliminary field survey results				CAS results			
	<5	5-9	10-49	Total	<5	5-9	10-49	Total
Beirut	83%	12%	5%	100%	85%	9%	6%	100%
Mount-Lebanon	89%	7%	4%	100%	90%	6%	4%	100%
North	96%	3%	1%	100%	94%	4%	2%	100%
Bekaa	94%	3%	2%	100%	95%	3%	2%	100%
South	96%	3%	1%	100%	94%	4%	2%	100%
Nabatieh	95%	4%	1%	100%	95%	3%	1%	100%
Total	93%	5%	2%	100%	92%	5%	3%	100%

Table 8 describes the final distribution of MSEs in Lebanon per Mohafazat, gender, and size. To recap, the Mohafazat distribution was adopted from the CAS distribution, while the gender distribution and the size distribution were obtained from the preliminary field survey.

Table 8: MSE Distribution per Gender, Size, and Mohafazat

Mohafazat Size	Male				Female			Total	
	1	[2-4]	[5-9]	[10-49]	1	[2-4]	[5-9]	[10-49]	
Beirut	3.9%	5.5%	1.2%	0.5%	0.2%	0.8%	0.2%	0.1%	12.5%
Mount Lebanon	12.9%	15.7%	2.3%	1.4%	1.9%	1.5%	0.2%	0.1%	35.8%
North Lebanon	12.1%	8.7%	0.7%	0.2%	0.7%	0.4%	0.0%	0.0%	22.7%
Bekaa	6.3%	6.4%	0.5%	0.3%	0.2%	0.2%	0.0%	0.0%	14.0%
South Lebanon	3.8%	4.5%	0.3%	0.1%	0.5%	0.5%	0.0%	0.0%	9.7%
Nabatieh	2.1%	2.6%	0.2%	0.0%	0.3%	0.1%	0.0%	0.0%	5.3%
Total	41.1%	43.2%	5.2%	2.6%	3.8%	3.5%	0.5%	0.2%	100.0%

D. Sampling ratios and “target” vs. “effective” analysis

At this stage of the study, all the necessary data was available for the implementation of the field survey and the constitution of the final sample. The terms of reference stressed on the following:

- A sample size of around 3,000 MSEs
- Different sampling ratios should be applied based on three main variables (size, gender, and Mohafazat)
 - Over-sampling females and large enterprises
 - Under-sampling males and small enterprises.

Table 9 details the different sampling ratios used for the preparation of the final sample.

Table 9: Sampling Ratios per Gender, Size, and Mohafazat

Mohafazat Size	Male			Female		
	1	2-9	10-49	1	2-9	10-49
Beirut	2/3	2/3	1/1	1/1	1/1	1/1
Mount-Lebanon	1/4	1/2	1/1	1/1	1/1	1/1
North	1/9	1/2	1/1	1/1	1/1	1/1
Bekaa	1/10	1/4	1/1	1/5	1/1	1/1
South	1/10	1/6	1/1	1/5	1/1	1/1
Nabatieh	1/10	1/4	1/1	1/5	1/1	1/1

Table 10 shows how the target sample is distributed, taking into account the abovementioned sampling ratios. The sample size was composed of 3,021 MSEs. The field survey completed 2,948 questionnaires. Table 11 shows the effective sample distribution of these questionnaires.

Table 10: Target Sample Distribution per Gender, Size, and Mohafazat

Mohafazat Size	Male				Female				
	Total Lebanon	1	2-9	10-49	Total Male	1	2-9	10-49	Total Female
Beirut	393	114	197	24	335	8	47	3	58
Mount-Lebanon	1,069	200	559	85	844	118	102	5	225
North	680	125	436	22	583	61	36	0	97
Bekaa	424	91	245	45	381	7	35	1	43
South	295	60	124	15	199	16	80	0	96
Nabatieh	162	31	100	6	137	8	17	0	25
Total Lebanon	3,021	620	1,660	197	2,477	218	317	9	544

The distribution of the completed questionnaire (effective sample distribution) shows some discrepancy when compared to the target sample distribution. The comparison between Table 11 and Table 12 show the following:

- a. The completed questionnaires amounted to 2,948 compared to 3,021 previously selected. Therefore, the study had a non-respondent ratio of 2.4%.
- b. There are no significant differences between the target and the effective distributions per Mohafazat (382 completed questionnaires in Beirut versus 393 “to be completed”, 1020 in Mount-Lebanon

versus 1069, 667 in North-Lebanon versus 680, 422 in the Bekaa versus 424, 293 in South-Lebanon versus 295 and 164 in Nabatieh versus 162).

- c. There are no significant differences between the target and the effective distribution per gender. There are 2409 completed questionnaires for males compared to 2477, and 539 compared to 544 for female.
- d. Discrepancies appear in the per size distribution. Mainly, the “effective” results show a net decrease in the number of employees. Categories (2 to 9) and (10 to 49) witnessed a decrease in the number of MSEs (passing from 1660 to 1310 and from 197 to 93 for males, and passing from 317 to 231 and from 9 to 8 for females). While category one (one employee) witnessed an important increase in terms of the number of MSEs (passing from 620 to 1006 for males and from 218 to 300 for females). This is mainly due to the following factors:
- Under reporting the number of employees by the entrepreneur during the second visit due to an intrinsic mistrust of labor related government agencies caused by the detailed nature of the questionnaire used.
 - The answers given during the first visit are likely true for the following reasons:
 - i- The distribution of the sample matches the national known distribution.
 - ii- During the first phase it was not necessarily the entrepreneur who gave the answers thus reducing the mistrust factor.
 - iii- Due to the quick nature of the first enumeration, the entrepreneur was less intimidated by the questionnaire (the enumeration was done orally).

Table 11: Effective Sample Distribution per Gender, Size, and Mohafazat

Mohafazat Size	Total			Male			Female		
	Lebanon	1	2-9	10-49	Total Male	1	2-9	10-49	Total Female
Beirut	382	144	153	12	309	31	40	2	73
Mount-Lebanon	1,020	378	412	28	818	115	85	2	202
North	667	200	350	14	564	71	31	1	103
Bekaa	422	140	206	28	374	25	22	1	48
South	293	75	123	8	206	44	42	1	87
Nabatieh	164	69	66	3	138	14	11	1	26
Total Lebanon	2,948	1,006	1,310	93	2,409	300	231	8	539

Table 12: Final Sample Distribution before Correction (completed questionnaires)

Mohafazat Size	Total	Male				Female			
		1	2-4	5-9	10-49	1	2-4	5-9	10-49
Beirut	382	144	126	27	12	31	32	8	2
Mount-Lebanon	1,020	378	358	54	28	115	76	9	2
North	667	200	305	45	14	71	29	2	1
Bekaa	422	140	183	23	28	25	20	2	1
South (incl. Nabatieh)	457	144	168	21	11	58	49	4	2
Total Lebanon	2,948	1,006	1,140	170	93	300	206	25	8

1.3.2 Correction Methodology

This section details the methodology used to generate results at the national level. However, it is important to note that the correction methodology began when all completed questionnaires were already coded, filtered, and entered into the database. Table 8 is essential for the correction methodology. In fact, the final sample (completed questionnaires: 2,948) should be distributed exactly like Table 8. Table 12 illustrates the distribution of the final sample (completed questionnaires). Table 13 shows the final corrected sample distributed by gender, size, and Mohafazat.

The correction was made for each cell. The following examples detail the approach:

Table 13 Final Distribution of the Corrected Sample Distribution

Mohafazat Size	Total	Male				Female			
		1	2-4	5-9	10-49	1	2-4	5-9	10-49
Beirut	367	115	162	36	16	5	24	7	2
Mount-Lebanon	1,056	379	462	68	40	56	44	5	2
North	669	356	257	19	7	19	11	-	-
Bekaa	413	187	188	14	9	7	7	-	1
South (incl. Nabatieh)	443	175	206	15	4	24	18	1	-
Total Lebanon	2,948	1,212	1,275	152	76	111	104	13	5

Example 1: The number of MSEs in Beirut (male and 1 employee) is 144 in the sample. It should be 115 according to Table 13. Therefore, 29 questionnaires should be deleted from the sample. The study decided to delete randomly questionnaires rather than changing weights mainly because of rounding problems. In fact, changing weights leads to results where the number of respondents could have decimals. In order to avoid this problem, the study selected randomly from the 144 sample, 29 questionnaires and deleted them.

Example 2: The number of MSEs in Beirut (male and [2-4] employees) is 126 in the sample (Table 12). It should be 162 according to Table 13. Therefore, 36 questionnaires should be added to the sample. The study selected randomly 36 questionnaires out of 126 and duplicated them.

Finally, correction was implemented based on these two procedures (random delete or random duplication). All the results detailed in this report are based on the corrected sample distribution (Table 13).

II. Overview: The MSEs in Lebanon

As determined by the technical file of the Study and the desk reviews, Lebanon's economy is dominated by MSEs. The 1996 census of buildings and establishments conducted by the CAS puts the number of existing enterprises at 198,000, with available information limited to 195,000 ones. In terms of structure, small enterprises employing less than five individuals make up the bulk of operational enterprises. According to the field study, enterprises employing less than five workers constitute 88 percent of the total number of enterprises in Lebanon (including missing ones), while those employing less than 50 individuals make up to 96% of the total. Cumulatively, enterprises with less than 50 employees generate the majority of employment opportunities in the country. Furthermore, services constitute the sector with the highest share of enterprises employing less than five individuals (93.8%), followed by agriculture (92.5%). In addition, it appears that services and leisure are the sectors with the highest share of enterprises employing less than 50 employees (97%) followed by industry (96%).

As shown in Table 14 below, enterprises with less than fifty employees account for 530 thousand employees, accounting for 51% of the total working population estimated at 1.24 million⁷. It should be noted that the total population shown in the table below, amounting to around 640 thousand, is almost 50% of the estimated total working population of 1.24 million in the country, as it only encompasses employees working in enterprises and excludes agricultural laborers and most public sector employees, as well as workers in sectors not included in the scope of this study.

The Lebanese economy is dominated by trade and services which encompass the highest percentage of workers. This sectoral structure is a consequence of several factors, mainly a historical one, in addition to the fragmentation of markets as a result of the civil war, abrupt urbanization, and others.

Table 15 clearly indicates a skewed geographic distribution of MSEs, illustrating that most MSEs are located in central Lebanon i.e. Beirut and Mount Lebanon with the smallest proportion located in Nabatieh.

⁷ Living Conditions in Lebanon, Central Administration for Statistics, 1997

Table 14: Distribution of Employees According to the Size of Enterprise and Sector of Activity⁸

Sector	<5	5-9	10-19	20-49	50-99	100-199	200>	Total
Agriculture	27,786	2,695	1,320	1,346	373	299	250	34,068
Service	199,870	22,358	11,687	10,592	4,619	5,532	2,750	257,407
Construction	3,100	1,792	1,102	1,622	745	748	2,750	11,858
Industry	46,048	23,779	14,747	15,939	8,270	6,130	7,750	122,662
Leisure	17,794	4,893	4,278	4,727	1,565	748	1,250	35,253
Other	50,566	15,141	18,778	28,394	21,680	21,528	23,250	179,336
Total	345,164	70,658	51,910	62,618	37,250	34,983	38,000	640,584

Table 15: Distribution of Enterprises According to the Size of Enterprise and Location⁹

Mohafazat	<5	5-9	10-19	20-49	50-99	100-199	200>	Missing	Total number
Beirut	81.23%	8.44%	3.75%	1.83%	0.60%	0.26%	0.24%	3.65%	24,584
Mount Lebanon	86.36%	6.15%	2.23%	1.15%	0.30%	0.15%	0.09%	3.56%	72,989
North	91.15%	3.82%	1.07%	0.51%	0.13%	0.06%	0.02%	3.24%	44,270
Bekaa	93.27%	3.34%	1.08%	0.61%	0.12%	0.07%	0.04%	1.47%	26,784
South	89.44%	4.09%	1.20%	0.67%	0.18%	0.09%	0.04%	4.30%	19,201
Nabatieh	92.22%	3.21%	0.98%	0.39%	0.15%	0.00%	0.00%	3.05%	10,271
Total	88.36%	5.17%	1.83%	0.93%	0.26%	0.12%	0.08%	3.26%	198,099

On the gender front, women participation is estimated at 22% of the working population (1997), and 29% of permanent employees. However, variations are noted with the size of enterprises, where women participation is positively correlated with the size of the enterprise, and is highest in medium scale enterprises. Variation also exists based on enterprise economic activity, with increased participation in textile, leather, and garment industries (62.8% in enterprises having 24-49 workers)¹⁰.

The overall environment in Lebanon provides several points of strength that can be utilized to enhance the role of MSEs in poverty alleviation and employment generation. These include a liberal economy that provides an opportunity for the development of the private sector; a flourishing banking sector that could be used for strengthening MSEs if a favorable macro-economic environment is in place; a rich human resources base; and the existence of a number of government interventions to develop the MSE sector.

On the other hand, the MSE sector faces several constraints that should be overcome if the sector is to achieve its optimal utility. These include the increasing move towards liberalization and globalization, hence a decline in protectionist initiatives; the lack of access to new technologies; limited access to financial/credit services from formal and informal sectors; as well as the inadequacy of basic infrastructure; the relatively high costs of inputs and a shortage of skilled labor in some professions. In addition, Lebanon lacks a regulatory framework that organizes the work of MSEs which currently operate under obsolete laws.

III. The Survey: Main Findings

III.1 Size and sector of activity

Lebanon is dominated by enterprises employing less than ten workers. This fact has been validated by the current research, as 97% of the surveyed enterprises were found to employ less than ten individuals. The survey also found that 46.8% of surveyed enterprises employ 2-4 workers, while enterprises with only one employee account for almost 45% of the sample, whereas enterprises employing 10-49 workers account for only 2.7% of the sample. The dominance of the informal one-

⁸ Census of Buildings and Establishments, Central Administration for Statistics, 1996 and Consultation & Research Institute estimates

⁹ Census of Buildings and Establishments, Central Administration for Statistics, 1996

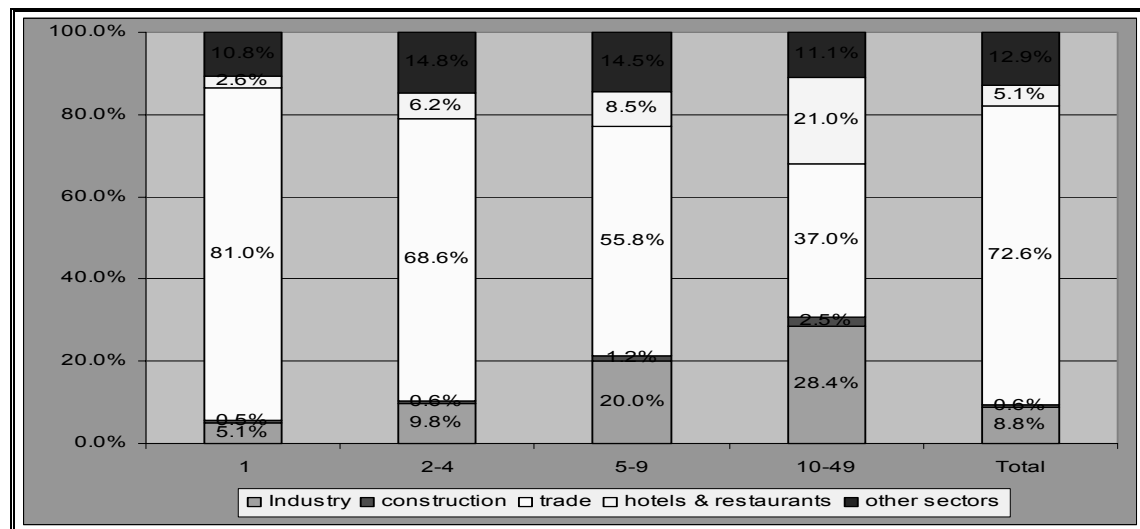
¹⁰ These conclusions pertain to employees and not entrepreneurs.

person enterprises is an evidence of the entrepreneurial spirit that prevails over the Lebanese informal economy. It might also be an indication of the prevalence of this sector within poor disadvantaged categories of the population, with limited enabling factors for such enterprises to grow beyond the “one-person” category.

The sectoral distribution of surveyed enterprises delineates the dominance of trade as the major economic activity of MSEs (72.6% of sample), only to be followed by “other”¹¹ economic activities (12.9%), and to a lesser extent industry (8.8%). Enterprises in the category that encompasses hotels and restaurants do not constitute more than 5.1% of surveyed enterprises, and construction¹² does not include more than 0.6% of surveyed MSEs.

Figure 1 also illustrates that the highest concentration of trade-related activities are observed in enterprises with only one worker (81%). This percentage decreases to 37% of enterprises employing 10-49 individuals. The reverse is true in terms of the industrial sector which accounts for a higher percentage of larger enterprises as opposed to smaller enterprises (industry accounts for 28.4% and 5.1% of enterprises employing 10-49 individuals and one person enterprises, respectively). The same observation is noticed in the hotel and restaurants sector.

Figure 1: Distribution of MSEs According to Size and Sector of Activity



Female-run enterprises account for around 8% of surveyed MSEs, with noted variation between the different sectors of activity. Female-run enterprises do not account for more than 3.9% and 4.6% of surveyed enterprises in the industry and hotels & restaurants sectors, respectively. Conversely, these constitute around 8% of enterprises in the trade sector and are highest for "other" sectoral activities (10.3%).

III.2 Age of enterprises

Most of the surveyed enterprises are less than ten years old and were established after the year 1995 (58%), and 35% of enterprises were established after the year 2000, while only 14% of surveyed enterprises were established before 1979. Furthermore, the fact that MSEs have been established for more than ten years may suggest that they are stable in the market and well established as per their share of market and customers. What is most significant, perhaps, is that 71% of surveyed enterprises

¹¹ The category "other" includes the following occupations: transportation, telecommunications, monetary intermediation and financial leasing, life and non life insurance, real estate activities, photographic activities, and other entertainment activities.

¹² The category "construction" in the sample included only general contractor's office, engineers, self employed professionals. Enterprises with 50 or more workers were excluded from the survey. The three categories listed account for the majority of construction labor and enterprises, explaining the low significance of construction in this sample. As a result, analysis for construction will be systematically excluded from the text while it will be kept in the tables and figures for reference.

were established after the year 1990, which is the year that marked the end of the 15-year civil strife in the country, and which resulted in high expectations in the economic future of the country, as well as expected regrouping of the population due to the returnee process.

The date of establishment of surveyed MSEs was found to vary according to size (in terms of employees), the sector of activity, gender, and geographic location. In fact, it appears that smaller enterprises are younger; work in trade, hotels and restaurants; and are female-run.

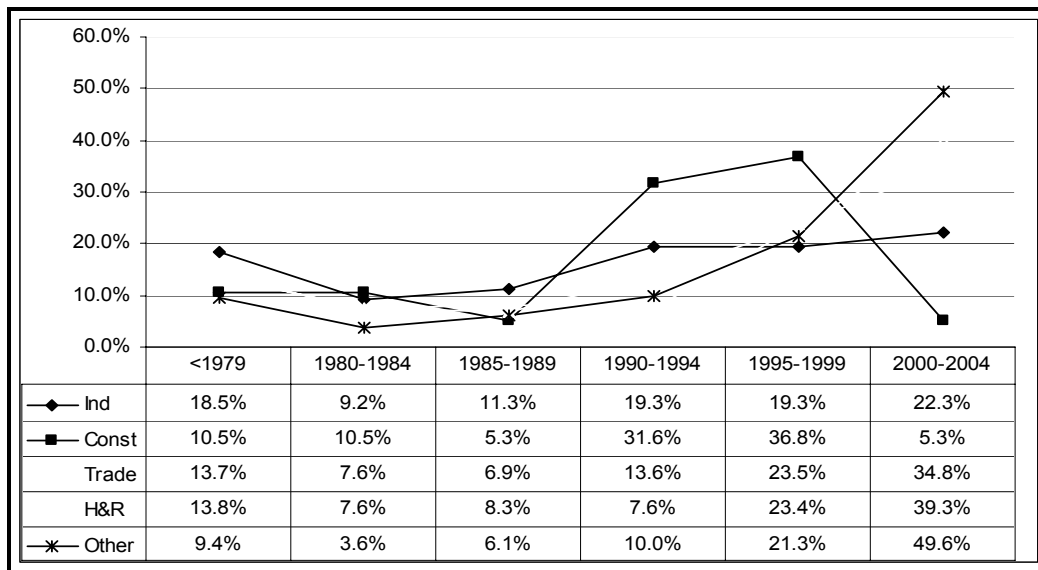
Age and size of MSEs

The enterprises' date of establishment differs according to size. It is noted that a higher number of micro enterprises were established after 2000 (35% of one-person enterprises and 38% of enterprises with 2-4 workers were established after the year 2000, compared to 18% of those employing 10-49 workers established in the same period). It is also noted that a higher percentage of larger enterprises (10-49 employees) covered by the survey were established 10-15 years ago, whereas smaller enterprises are younger (61% of one-person enterprises and 45% of enterprises with 10-49 employees, were established after 1995).

Age and sector of activity of MSEs

The date of establishment of enterprises also differs based on the sector of activity. What is obvious in this context is that industrial enterprises have the most uniform distribution as per the starting date, with the period 1980-1984 witnessing the least number of established enterprises. It is also noted that a higher percentage of enterprises working in trade and those working in hotels and restaurants are newly established and are less than 4 years old (25% of trade enterprises and 39% of hotels and restaurants were established after the year 2000). To a great extent, the boom of hotels and the touristic industry is justified by the increase of Arab oil-rich tourists, triggered by the events of September 11, 2001. (Figure 2)

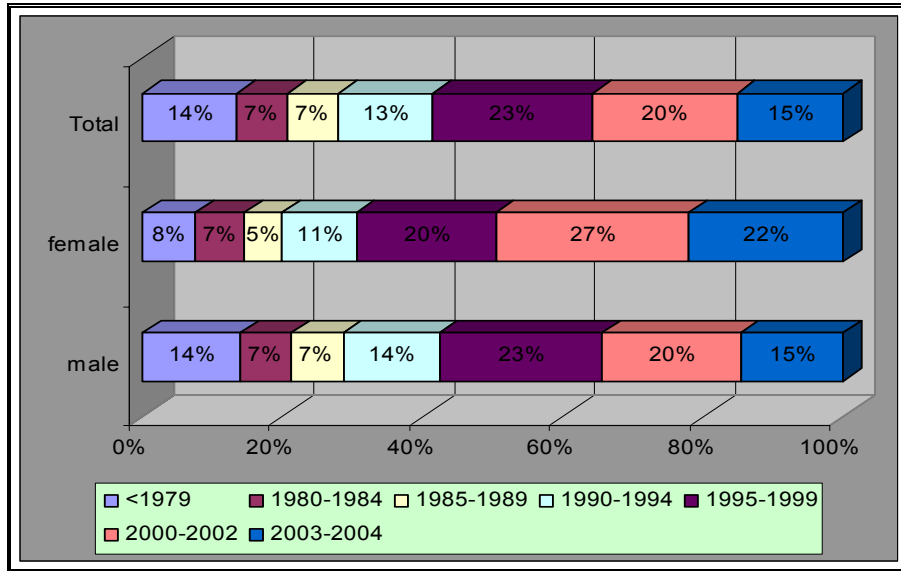
Figure 2: Distribution of MSEs According to Sector of Activity and Date of Establishment



Age of MSEs and gender variant

Gender is also a variant in the date of establishment of enterprise. Female-run enterprises are younger, with 49% established after 2000, compared to 35% of male-operated MSEs. This illustrates an increased entrepreneurial activity among females in recent years as well as an increased level of female economic activity (see Figure 3).

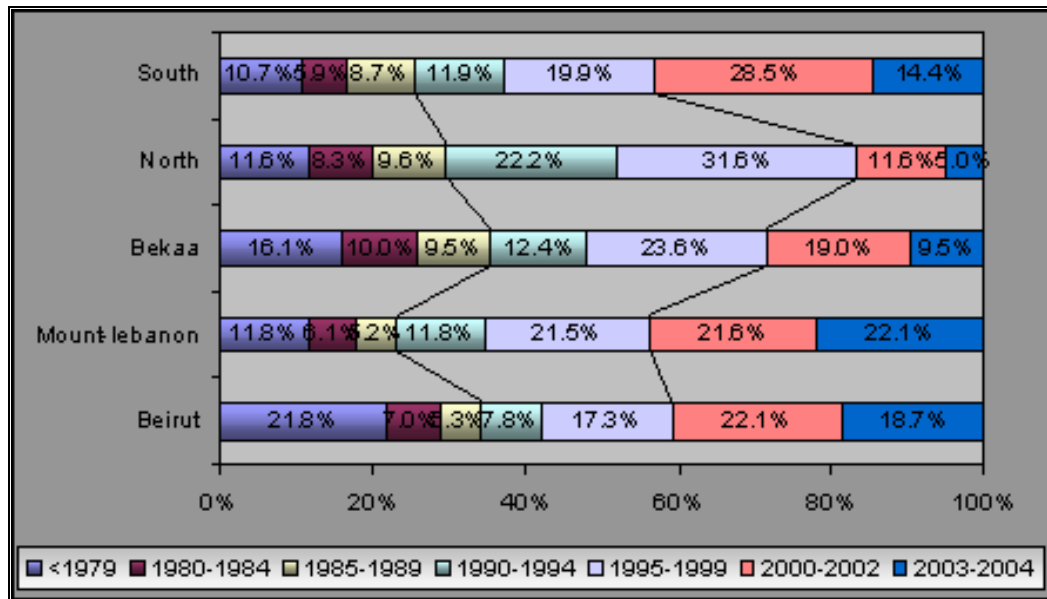
Figure 3: Distribution of MSEs According to Gender and Date of Establishment



Age and geographic location of MSEs

Geographic location also affects the MSEs' year of establishment as shown in the Figure below. Beirut seems to have a higher ability to sustain enterprises than other regions, as it has the largest percentage of older enterprises (21.8% of Beirut surveyed enterprises were established before the year 1979, compared to 10.7% in South Lebanon and 11.6% in North Lebanon). Conversely, South Lebanon witnessed the establishment of the largest portion of its MSEs in the period 2000-2004, which is the period directly following the Israeli withdrawal from the region. Furthermore, Mount Lebanon has the largest percentage of enterprises that are less than one year old, while the North has the lowest.

Figure 4: Distribution of MSEs According to Location and Year of Establishment



The distribution of MSEs according to the date of establishment and geographic region illustrates the importance of access to basic infrastructure and services for the establishment of enterprises. In this sense, less developed regions, such as North Lebanon and the Bekaa, witnessed higher enterprise activities in the period directly following the civil war (1990-1994), which coincided with increased

efforts for reconstruction of basic infrastructure and services in regions outside Beirut. An examination of the rate of enterprise establishment in the last two years (i.e. 2003-2004) indicates a lag in MSE establishment in almost all regions, with the exception of Beirut and Mount Lebanon. This can be explained by the increased attraction of tourism and services facilities provided mostly in these two regions (Figure 4).

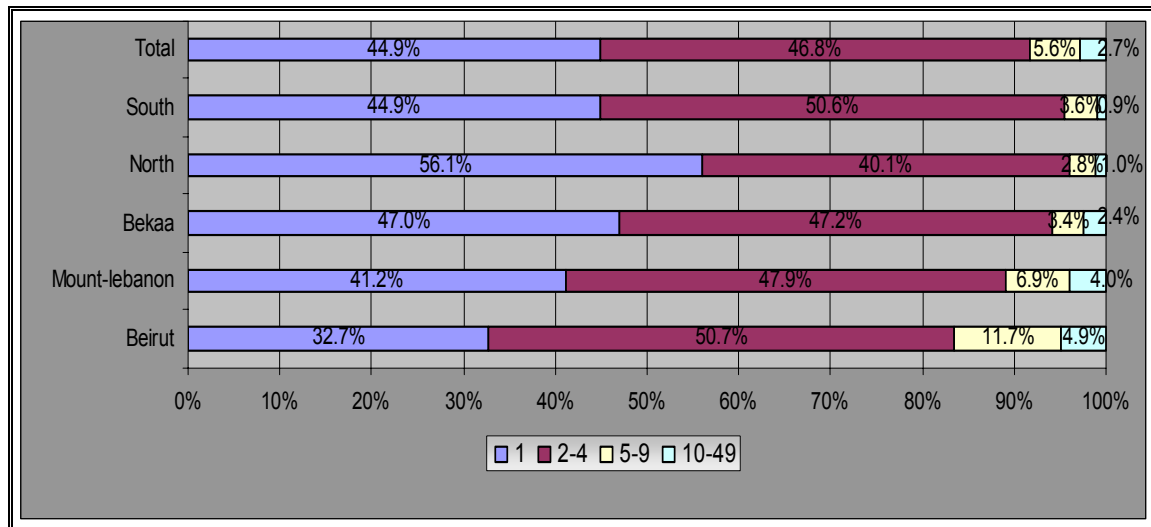
III.3 Geographic distribution of MSEs and other variants

Location affects the distribution of MSEs. Generally speaking, more developed regions tend to have larger enterprises, while poverty stricken underdeveloped regions are more than proportionally dominated by micro enterprises.

As shown in the figure below, the share of surveyed enterprises with one worker only is 32.7% in Beirut (of the total in Beirut) compared to 56.1% and 47% of those surveyed in North Lebanon and the Bekaa respectively, and is lower than the national profile (45% of surveyed enterprises have one worker only). Furthermore, Beirut and Mount Lebanon are the only regions that have above average concentration of 10-49 category and 5-9 MSEs. Similarly, 16% of Beirut enterprises employ 10-49 workers, compared to 2.8% in North Lebanon and 4.5% in South Lebanon. The Figure below illustrates that North Lebanon has the largest concentration of single enterprises, as well as the smallest concentration of 5-9 enterprises.

The above indicates the high correlation between the size of the enterprise and the development of the region. Indeed, more populated and accessible poles tend to attract more and bigger enterprises, which is the case for Mount Lebanon and Beirut where most MSEs are concentrated – 59.2% of MSEs in Lebanon. Such figures reflect that these regions represent the economic center of Lebanon. In fact, Mount Lebanon and Beirut have a higher access to infrastructure, services, financing, and markets, while North Lebanon is the most disadvantaged region of the country with highest poverty rates (Figure 5).

Figure 5: Distribution of MSEs According to Size and Location



III.4 Seasonality of Activity of MSEs

The survey showed that most MSEs have a permanent activity, operate in one location only, and do not employ partnership ventures.

Most of the surveyed MSEs have permanent activities (97%), while a mere 3% are seasonal or with temporary activities. In addition, only 5.9% of MSEs are engaged in a secondary activity. This percentage increases with the size of the MSE, in other terms employers having one employee account for 5 percent of MSEs with a secondary activity, while those having 10 to 49 employees make up to 14 percent. However, the majority of enterprises having a secondary activity remain within the same primary sector.

Most of the surveyed MSEs operate in one location only (60%), while 19% operate from two locations and 21% have 3 locations and more. The existence of another location in which the enterprise operates increased with its size. For instance, while only 2.5% of MSEs employing one person do have another location, this percentage increases to 33.3% for MSEs employing 10 - 49 persons. The multi-location operation is mostly concentrated in Beirut and Mount-Lebanon (19% and 12% respectively).

Only 12% of surveyed entrepreneurs have partners. The bigger the size of the MSE (in terms of employees), the higher is the probability of partnership ventures. While only 6% of MSEs belonging to the one-employee category have a partner, 33% of MSEs belonging to category [10-49] employees do. In the majority of cases (59%), the number of partners does not exceed one, and in 70% of the cases the partners are family relatives.

III.5 Working Conditions

III.5.1 Working days

The questionnaire integrated two different variables to measure the working time: working days and working hours. The analysis of these two variables shows the same pattern. Results show that most of the surveyed MSEs work 6 days per week with an average number of working days of 6.3 per week (59.5% of enterprises work 6 days per week, while 37.5% work 7 days per week).

Cross-tabulation analysis shows that there are slight variations based on gender and sectoral activities. Female entrepreneurs work less than male entrepreneurs; although the results are not significantly different (the average working days per week are 6.3 for females and 6.4 for males). No significant differences in the average working time appear with the size and location of MSEs. However, it appears that services sectors (trade and tourism) have longer working time than other economic sectors, where the average number of working days per week increases to 6.7 in hotels and restaurants.

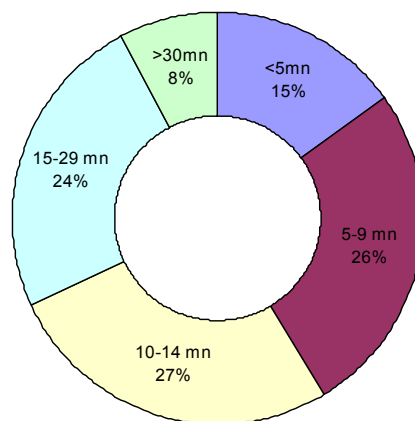
III.5.2 Work place

The MSEs' working place is mainly constituted of a "Shop" (89.3% of the cases). However, some other categories of work places exist, such as workshops (2.6%), open space (1.6%), apartments (1.3%), offices (0.9%), rooms (0.8%)...etc.

The size of MSEs is an important factor affecting the work place. The percentage of workshops increases with size (0.83% in category one-employee versus 13.6% in category [10-49] employees), and the percentage of shops decreases with size (94.7% in category one-employee versus 38.3% in category [10-49] employees).

Around 63% of the work places are rented, while 32% are owned. Obviously, rented places decreases and owned places increases according to size.

Figure 6: Travel Duration



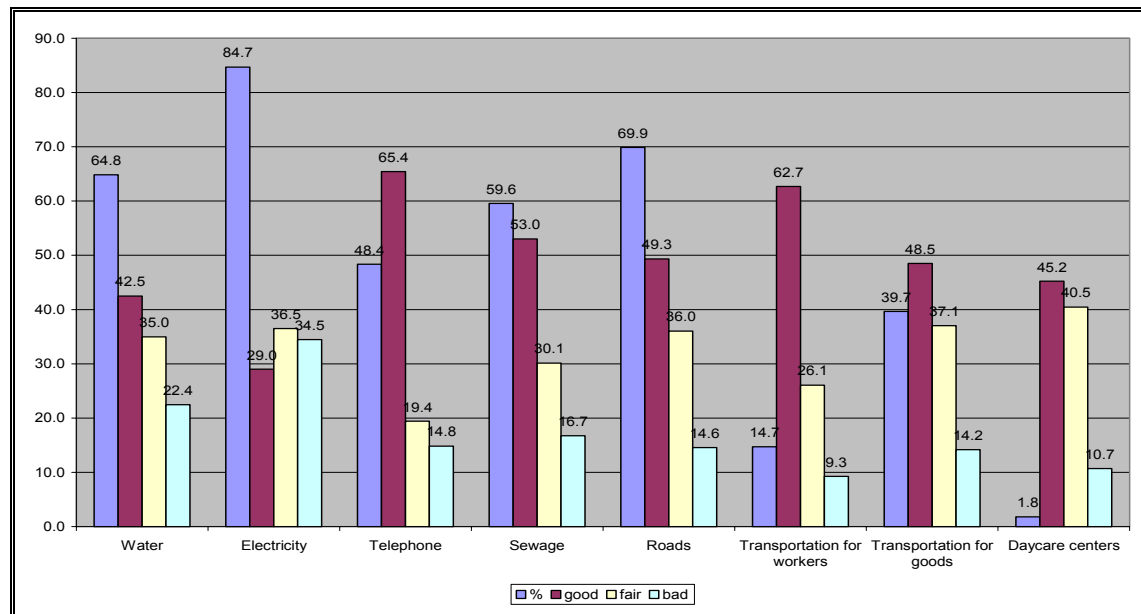
The travel duration (in minutes) from home to work is not long, where only 7.8% of surveyed MSEs have a travel duration of more than 30 minutes between home and work, while traveling time is less than 5 minutes for 15.1% of surveyed MSEs, 5-9 minutes for 26.2% of them, 10-15 minutes for 26.6% and 15-29 minutes for 24.2% of MSEs. The close distances between home and work is a predominance of the one-employee MSEs who live usually near their working stations (Figure 6).

III.5.3 Access to infrastructure

Access to infrastructure is a determinant enabling or constraining factor for the work of MSEs. In general, most surveyed enterprises have access to water, electricity, sewerage systems, and roads. A lower percentage has access to telecommunication networks, and transportation facilities for goods and workers.

As shown in the Figure below, around 65% of surveyed enterprises have access to water, 42% of whom estimate its quality as “good”¹³, while 22% perceive it as “bad”. Around 85% of MSEs access electricity, but 36% of them regard it as a “fair” quality asset, and only 29% consider it “good”. Access to roads is highlighted by 70% of MSEs, and 50% perceive it as a “good” service. Furthermore, it is noted that less than 50% of surveyed MSEs have access to telecommunication networks, and 65% of them consider the quality of the service as “good”. Only 40% of MSEs have access to transportation means for goods while only 15% access transportation services for workers. Finally, only 2% of MSEs have daycare centers (Figure 7).

Figure 7: Infrastructure Availability and Quality



III.5.4 Access to advisory/training services

Access to information and advisory services is important for optimizing efficiency and effectiveness of enterprises. The survey found that a minimal number of surveyed MSEs have access to such services, whether in terms of information or comparative experiences. It appears that, on average, only 4.7% of surveyed enterprises acquire services pertaining to management, trainings, marketing, exports, production, etc.... The least used service is the one concerning exports where only 0.68 percent of enterprises resort to it, while the most consumed service is domestic marketing (7%).

¹³ The indicators of measure considered for the evaluation of the services’ quality are: good, fair, and bad. The infrastructure parameters are: water, electricity, telephone, sewage, roads, transportation for workers, transportation for goods, and day care centers.

The survey also showed that larger MSEs have more access to such services. Whenever this type of assistance is available, it is usually done by business associates and is positively evaluated for its impact on the enterprise.

Other survey results indicated that female entrepreneurs are more likely to use these types of services.

III.6 Major Constraints

Table 16 details the list of constraints that are faced by MSEs, classifying them into three categories based on the response of the surveyed enterprise.

Table 16: Problem Evaluation

Type of constraints	None	Moderate	Major	Total
Financial issues				
Securing initial capital	21.8%	30.0%	48.2%	100%
Financial services	54.7%	21.7%	23.6%	100%
Profitability	40.1%	29.5%	30.4%	100%
Regulatory framework				
Licensing and registration procedures	39.6%	25.7%	34.7%	100%
Tax rates	38.6%	18.7%	42.7%	100%
Custom duties	53.7%	14.1%	32.2%	100%
Tax administration	49.7%	14.2%	36.1%	100%
Labor Issues				
Labor law	53.9%	22.4%	23.7%	100%
Labor inspections	68.8%	22.4%	8.8%	100%
Labor cost	56.2%	29.9%	13.8%	100%
Finding qualified workers	57.0%	20.2%	22.8%	100%
Retaining qualified workers	56.6%	19.5%	23.9%	100%
Un-utilized capacity	52.4%	35.4%	12.2%	100%
Raw material				
Availability of raw materials	66.4%	26.6%	7.0%	100%
Raw material cost	47.5%	34.6%	17.8%	100%
Marketing issues				
Low demand for output	33.2%	42.7%	24.1%	100%
Strong domestic competition from MSEs (<10 empl)	46.1%	26.7%	27.2%	100%
Strong domestic competition from medium enterprises (<50 empl)	58.9%	19.4%	21.7%	100%
Strong domestic competition from large enterprises (>50 empl)	63.7%	13.3%	23.0%	100%
Strong competition from imports	61.5%	17.4%	21.1%	100%
Others				
Meeting environmental requirements	68.7%	19.7%	11.6	100%

The most prominent constraints of surveyed MSEs seem to include securing initial capital for business start-up, and the high tax rates imposed by government regulations. A third of surveyed MSEs indicate that securing adequate profit is a constraint, as well as cumbersome licensing/registration procedures, custom duties, and tax administration. Access to financial services is viewed as a constraint by 24% of MSEs, while labor issues and availability of raw material do not seem to pose any significant difficulties to surveyed MSEs. Some MSEs face problems in securing demand for outputs, but competition issues are not that evident.

The survey indicated that 42% of MSEs are constrained by a lack of access to credit facilities. Under this issue, the results of the field survey show that 8.3% of MSEs currently have a credit/loan (mainly larger MSEs). The main source of loans is banks (69%), but also friends/relatives (18%) and business associates (6%). Around 56% of MSEs who are under loans declared that they are satisfied concerning these loans' conditions.

MSEs need support in domestic marketing (53%), and most are not internally well-organized (47.9% of MSEs declared that they do not keep regular accounts).

III.7 Customer and Market Structures

Surveyed MSEs depend on households as their major consumers – 94% of surveyed MSEs have their consumer base as households – however this structure weakens MSEs. In other terms, business-to-

business market is almost inexistent at a time when such a network creates a chain of added value to the market and develops the production line that is currently rather basic. The MSEs' consumer base barely includes government, cooperatives, private sector enterprises, or foreign firms.

According to the study's results, most MSEs depend on the surrounding local market to promote their output, where the local market constitutes the main advertising base for 96% of MSEs. They also significantly depend on the market in their surrounding region (51% of MSEs), but they merely have access to national (11%) or international markets (3.5%).

III.8 Ownership

Most of the surveyed MSEs are sole proprietorships (93.5%). Taking into consideration the dominance of this type of ownership, MSEs in the industry, hotels and restaurants sectors are more prone to employing other forms of ownership, especially partnerships and limited liability (4.6 and 4 percent respectively). In addition, hotels and restaurants have the highest percentage of MSEs falling under the joint stock form of ownership (4.6%) compared to 1.2% in the industry sector. Interestingly enough, the construction sector is exclusively in the form of sole proprietorship (100%). Only 2.3% of surveyed MSEs have simple partnership agreements, whereas 2.2% have limited liability companies. Furthermore, limited liability by shares constitute an insignificant 0.2% and joint stock enterprises represent 1% of the enterprises. Gender does not seem to have an impact on the type of ownership.

The size of MSEs also affects the type of ownership, where bigger enterprises diverge from sole proprietorship. Indeed, the size of the enterprise is negatively correlated to the sole proprietorship form of ownership. In fact, limited liability, limited liability by shares and joint stock forms of ownership are most prevalent in the 10-49 categories, reinforcing the correlation between size and more complex forms of ownership.

III.9 Formality and NSSF Membership

Lebanon, like most developing countries, has a large informal sector. It is, however, important in this context to draw attention to the complexity of the "informal" sector phenomenon and the different definitions surrounding this issue. There is no clear delineation in the country between "formal" and "informal", and the area between the two remains grey in terms of definitions and characteristics.

Although no official statistics are available on the informal sector, its widespread nature is easily observed in the country. Perhaps more prevalent than informal enterprises is the spread of informal employment, usually referred to as employment that is not governed by country labor legislations. In this regard, this section will examine enterprise formality and informality by exploring enterprise registration in three areas of commercial registration, registration in the national social security fund, and registration with tax authorities.

III.9.1 Commercial registration

The form of ownership tells us little regarding the formality of enterprises. Overall, the level of registration presents a more concrete indicator regarding the state of formality of MSEs in Lebanon.

Table 17: Commercial Registration of MSEs

Registration	Percent	No. of respondents	No. of employees	% employees
Not registered	42.8%	1254	2484	34%
Registered	41.9%	1227	4037	55%
Not required	15.2%	445	790	11%
Total	100%	2926	7311	100%

It is noted that almost half of the MSEs surveyed - with the exception of those which are not required to register - are not commercially enrolled. In addition, female operated MSEs indicate a higher level of non-requirement for registration. Enterprises have different registration levels depending on the sector of activity, where higher registrations are observed in the industrial sector. The degree of commercial registration is also linked to the size of MSEs, where there is a higher tendency for registration as the size of the enterprise becomes bigger (Table 17).

The percentage of MSEs that are not registered is almost equal to those registered (42.8% to 41.9%). The percentage of surveyed enterprises, which indicated that they are not required¹⁴ by law to register, amounts to 15.2%. However, it should be noted that the percentage of non-registered MSEs amounted to 44.5%, compared to 35% who were registered upon initiation. This indicates that MSEs tend to legalize their status and register commercially as they become older and maybe grow.

Commercial registration seems to be gender sensitive, the survey shows that the share of registered enterprises is slightly higher in female-run firms (42.7%) as opposed to 41.9% for male-run enterprises. However, more female operated MSEs report no requirement for registration (23.7%), perhaps due to the nature of services that these MSEs provide. As was seen in section II.1 above, female MSEs are characterized by being smaller and concentrated in “other” sectoral activities.

Enterprises have different registration levels depending on the sector of activity. Excluding construction, the highest degree of registration is observed among industrial enterprises (45.9%) and the lowest among "other" sector (34.9%). The highest "not required" incident is observed in the hotel and restaurant sector (20.3%) and is probably due to the fact that this sector includes small sandwich snacks and canteens. In trade there are as many registered enterprises as non-registered ones (42.7%).

In addition, there is a correlation between the degree of formality in terms of commercial registration and the size of the MSE in terms of the number of employees. In this context, the larger the size of the MSE, the higher the probability it is to be commercially registered. One-person enterprises are mostly not commercially registered, while enterprises employing 5-9 employees have a higher tendency for being commercially registered. The survey indicates that 33% of one-person enterprises are registered, compared to 80% of MSEs employing 5-9 individuals and 76% of MSEs employing 10-49 individuals.

III.9.2 Registration in the National Social Security Fund (NSSF)

A lower percentage of surveyed enterprises participate in the government insurance scheme, known as the NSSF, with only 20% of NSSF registration level. Again, gender, sector of operation, size (in terms of employees) and commercial formalization play a role in determining the likelihood of NSSF registration. It should be noted that this section excludes figures for one-person enterprises as these are exempt from NSSF registration.

As illustrated in the table below, the incidence of registration is slightly higher for females than it is for males (20.8 and 19.9% respectively) and conversely, the incidence of non-registration is lower for females than it is for males (40.8 and 55.8% respectively). It is noted that a higher percentage of female operated enterprises are not required to register with the NSSF.

The sector of activity also affects the registration level with the NSSF. The table below illustrates levels of NSSF registration segregated by economic sector of activity, outlining that the highest incident of NSSF registration is observed in the hotel and restaurant sector, followed by industry. Conversely, the lowest level of registration is found in the "other sector" category that includes a higher number of non-formal MSEs. On the other hand, the highest incident of non-NSSF registration is found among trade enterprises (Table 18).

Table 18: NSSF Registration and Sector of Activity

	Not registered in NSSF	NSSF registered	Not required	Total	No. of respondents
Industry	57.10%	21.70%	21.20%	100.00%	189
Construction	58.30%	25.00%	16.70%	100.00%	12
Trade	55.60%	19.50%	24.80%	100.00%	1055
Hotels & restaurants	41.60%	24.80%	33.60%	100.00%	113
Other sectors	54.20%	18.20%	27.50%	100.00%	236
Total	54.60%	20.00%	25.40%	100.00%	1605

¹⁴ A definition of the “not required” category is needed in this context. This question was asked subjectively to entrepreneurs, thus, a “not required” answer is given as such. In general, there are many forms of registration exemptions in Lebanon, for example, an enterprise selling less than \$100,000/year is not required to register in the VAT. Thus, subjectivity plays a part in this section, but inconsistencies and peculiar answers appear in a very small minority of cases, specifically, in the 10-49 category enterprises.

Size also affects NSSF registration in the same way it affects commercial formality and forms of ownership. Hence, the larger the enterprise, the more likely it is to register in the NSSF. While 59.5% of MSEs employing 2-4 employees are not registered in the NSSF, this percentage declines to 29% and 24.1% in enterprises employing 5-9 employees and 10-49 employees, respectively. The same relation applies to the requirement of registration and the enterprises' number of employees.

Regarding formality, enterprises that are commercially registered are likely to be registered in the NSSF as well. In fact, it appears that 84.6% of enterprises that do not have commercial registration are also not enrolled in the NSSF, and only 5.3% of enterprises that are not registered commercially are registered in the NSSF. It should be noted that an enterprise in Lebanon can have commercial registration without being registered in the NSSF but the opposite is not true. This anomaly can be attributed to misreporting on behalf of interviewed entrepreneurs. On the other hand, 36% of enterprises that have commercial registration are enrolled in the NSSF and 39.8% of enterprises that are not registered with the NSSF have commercial registration.

III.9.3 Tax registration (VAT and Income Tax Registration)

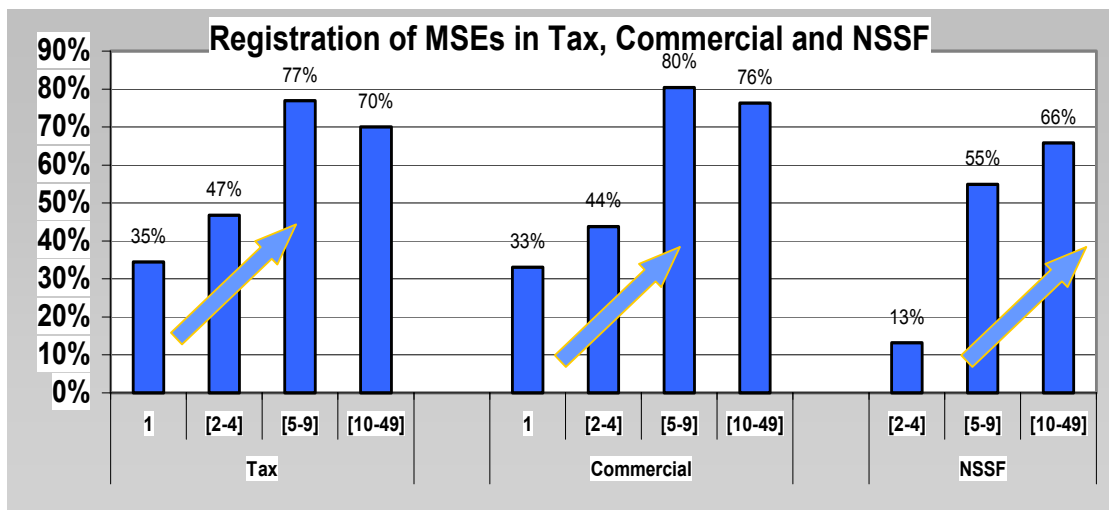
Tax registration is another form of registration for enterprises in Lebanon and can illustrate the level of government's ability to penetrate the MSEs market and impact company behavior.

The survey indicates that tax registration is also gender sensitive as around 44% of surveyed male-run enterprises are registered with the taxation department, while 39.7% are not. On the other hand, 39% of female-run enterprises are tax-registered and 36% of them are not. Again, as was the case in the commercial and NSSF registration, a higher number of female-operated MSEs indicate that they are not required to have tax registration (25% compared to 16.3% of male-operated MSEs).

With the exception of construction the sectors "other" and trade have the highest incidents of tax registration - 45.3 and 43.7% respectively – while hotels and restaurants rank last with 39.9 percent of tax registration and industry second last with 40.1 percent. However, in terms of non registration, industry has the highest non registration incident rate (44.4%), followed by "trade" (39.5%) and "other" (38.1%) sectors. In terms of non requirement for tax registration, hotels and restaurants figure as the highest share with 24.3 percent, followed by trade (16.8%).

In line with the other forms of registration, there is a correlation between size and tax registration, where larger enterprises are more likely to be registered with the tax department than smaller enterprises (only 34% of one-person enterprises are registered with the tax department compared to 70% of those employing 10-49 workers; and only 22.5% of the latter are not registered) (Figure 8).

Figure 8: Registration of MSEs in Tax, Commercial and NSSF



Finally, it appears through the relatively high figures of non-registration that this issue represents a barrier to formality for many businesses as most enterprises are informal and don't seem to mind the status quo. If the barriers were lowered it is possible that more enterprises would enter the formal world of business.

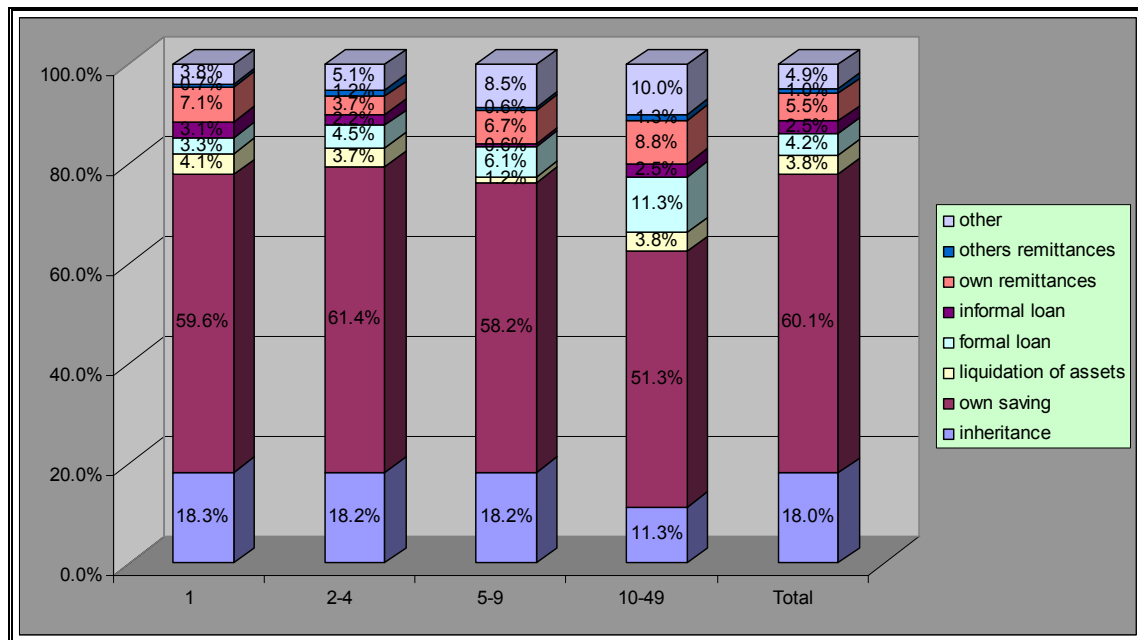
III.10 Initial Capital and Access to Credit

Due to the family nature of micro and small enterprises in Lebanon, it is observed that the initial start-up capital for the MSE is secured through family - and not business - networks. The survey indicates that own savings constitute the major source of initial start-up capital of MSEs in the country. The use of "informal" and "formal" sources of capital for business start up vary based on the size of the MSE, its sector of activity, and gender.

As shown in the Figure below, own savings account for the majority of initial capital for MSEs in Lebanon (60%), followed by inheritance (18%), own remittances (5.5%), other sources (4.9%), formal loans (4.2%), liquidation of assets (3.8%) and informal loans (2.5%). These figures reinforce the "family nature" of MSEs that use own savings and inheritance as primary sources of initial capital. The low percentage for using formal loans may be attributed to guarantee requirements and interest rate levels.

Notwithstanding the dominance of savings as initial capital sources, the larger the size of the enterprise, the more likely it is to access other funds for business start-up. In this context, own savings constitute the primary source of initial capital for 61.4% of enterprises with 2-4 employees, while this accounts for 51.3% of those MSEs that employ 10-49 workers. The same is true for using inheritance funds for this purpose. Similarly, access to formal credit – as the primary source of capital for business start-up – increases from a mere 3.3% for one-person enterprises to 11.3% in the case of larger enterprises (10-49 workers) (Figure 9).

Figure 9: Distribution of MSEs by Source of Initial Capital



The type of initial capital is also affected by the sector of activity. Industry is most likely to have been initially financed through inheritance. The incident of formal loan is lowest in the hotel and restaurant and industrial sectors. The figure below reinforces the familial nature of capital that helped the launching of most of these enterprises.

Gender plays a slight role in the type of start-up capital for MSEs. Females tend to rely less on inheritance and own savings for initial capital, and more on other forms of channels for securing the needed capital. For instance 18.6% of male-operated MSEs relied on inheritance as the primary source

for initial capital, compared to 11.2% of female-operated businesses, while 12% of female-run MSEs got their initial capital from other sources and channels. Furthermore, females tend to have slightly lower access to formal loan as a source of initial capital, while showing a somewhat higher tendency to use informal loans (4.3% of male-run MSEs, 3.9% of female-run MSEs accessed formal credit for business start-up).

This leads to an examination of the surveyed MSEs' ability to access formal loans, which is essential for the operation and sustainability of businesses for numerous reasons. The ability to access formal loans is an indication of efficient management on the part of the MSE, and the ability of the enterprise to repay such loans is an indication of the profit margin of the enterprise. In addition, credit is essential for enterprises to expand.

It is shown that few of the surveyed MSEs have access to formal loans (4.2%). Out of these¹⁵, most of the loans are obtained from banks (93%), while other sources include domestic firms (2%), non-governmental organizations (2%) and other sources (3%). Access to credit varies with the enterprise's sector of activity; however the results are non-conclusive due to the low number of MSEs accessing formal credit from the overall sample.

The effect of gender on access to credit could not be adequately analyzed due to the low number of female responses to this question.

In terms of sector of activity, 66% of MSEs accessing formal credit work in the trade sector, compared to 23% for MSEs in other sectors, 7% of those in industry, and around 3% for hotels and restaurants. The average interest rate is 10.44%.

Finally, no significant correlation could be detected between access to formal credit and MSE size. The survey indicates that the share of the number of loans between the different categories of MSEs is as follows: 35.7% for one-person MSEs with an average interest rate of 10.24%; 48.2% for MSEs employing 2-4 workers with an average interest rate of 11.1%; 8.9% for MSEs employing 5-9 workers with an average interest rate of 8.6%; and 7.1% for MSEs employing 10-49 workers with an average interest rate of 9.6%.

III.11 Average Present Value of Enterprise¹⁶

The average present value per enterprise in Lebanon is \$59,446, with variations according to gender, sector, and size. The survey indicates that male-operated MSEs have almost double the present value than those operated by females. In addition, hotel and restaurant MSEs and bigger MSEs have the highest present value.

Significant differences exist among the average present values of MSEs in Lebanon according to gender. The survey indicates that the average present value of the male-headed MSE is double that for females (\$61,742 and \$31,307, respectively).

In addition, the highest present value is found in the hotel & restaurant and construction sectors with an average present value of \$250 thousand. This is followed by industry (average present value of \$100,210), other MSEs, and trade.

As expected, the larger the MSE, the higher is its average present value, which is equivalent to \$811,920 of those MSEs employing 10-49 workers compared to \$22,735 for one-person MSEs. Overall, medium enterprises (10-49 workers) have an average present value 13 times larger than the average present value of the sample as a whole.

III.12 Value-added of MSEs

The value added of enterprises, especially MSEs, is difficult to obtain. This is primarily due to the reluctance of entrepreneurs to provide accurate information on these figures and the misleading background information, but also because they are unable to do so as book-keeping is not always

¹⁵ Due to the limited number of answers, this section is only indicative and information obtained and analyzed here cannot be generalized.

¹⁶ The average present value includes the value of the following assets: land, equipments and tools, buildings, inventory, and cash

practiced. Nevertheless, value added is essential if policies targeting MSEs are effective, as a major part of any MSE, policy should target the improvement in the value-added of existing MSEs, as well as direct new investments towards niche enterprises that have higher value-added.

Value added as a characteristic of the enterprise is related to several factors, including its size, the sector of activity, the characteristics of the entrepreneur, gender, geographic location of the enterprise, clustering, level of technology utilized, organizational structure, present value of enterprise, and subcontracting relationships.

In order to arrive at specific results, the current study¹⁷ provides analysis over (a) the current year; and (b) last year. This will assist in comparing performance over time, and might indicate some possible trends for analysis.

III.12.1 Value-added of MSEs¹⁸ and size

The survey demonstrates that the added value of the surveyed MSEs increases with size.

One-employee enterprises have the lowest value-added per enterprise of \$534/month. This figure gradually increases with size to reach \$1,218/month for the 2-4 employee category, and \$10,050 for the 5-49 employee enterprises category. The average number of persons engaged varies per category, from one person for the one-employee enterprises and 2.6 for the 2-4 employee category to 9.6 for the 5-49 employee category.

The linear pattern observed above somewhat changes when the value-added per worker - and not the enterprise - is considered. The table below illustrates that the value-added per worker in one-employee enterprises is higher than that in 2-4 employee enterprises. This is primarily due to the fact that in one-person enterprises the employee constitutes a form of wage/profit combination at the same time, in addition to the fact that in these enterprises the duration of work is self-determined.

The survey depicts that the average value-added per worker at interview time was \$534/month for category 5-49 employee MSEs, with an average value-added per worker approximately twice as large as that in one-employee enterprises (Table 19).

Table 19: Value-added per Worker and Size of Enterprise

	Size (no. of employees)			Total
	1	2-4	5-49	
Value-added per worker at interview time	534	476	993	536
Number of responses	271	300	40	611
Average number of persons engaged	1	2.6	9.6	2.3

III.12.2 Value-added and sector of activity

Value added also changes according to the sector of activity. The hotel and restaurant sector has the highest added value figure estimated at \$3,038/month per enterprise. This is followed by industry at a distant second of \$1,721/month per enterprise, while trade comes third. The average value-added per enterprise for the sample as a whole is \$1,493/month per enterprise, with the sectors of hotels and restaurants as well as industry above average.

The value-added per worker produces slightly different results than those mentioned above. Industry generates the most value-added per worker (\$596/month), followed by trade (\$550/month), and other sectors (\$488/month). The total average of value-added per worker is \$536/month.

¹⁷ The value-added was calculated, based on the following formula:

$$\text{Value added per enterprise} = + (\text{average monthly sales revenues})$$

$$- (\text{average monthly raw material expenses})$$

$$- (\text{average monthly energy consumption})$$

$$- (\text{average monthly other expenses})$$

$$\text{The value-added per worker} = (\text{Value added per enterprise}) \text{ divided by the (number of employees including employers)}$$

All figures are in USD

¹⁸ All value-added figures are monthly figures

III.12.3 Value-added and geographic location

Location plays an important part in determining the value-added of the enterprise, and is highest in the capital of Beirut (\$6,780/month) recording more than four times the average value-added per enterprise for the country as a whole (\$1,493/month), and reflecting the fact that Beirut is the center of economic activity in Lebanon. The lowest average value-added is recorded in the Bekaa (\$709/month), followed by North Lebanon (\$754/month), both of which are the most marginalized and poor areas in the country. The second most productive region is Mount Lebanon (\$1,224/month), followed by South Lebanon (\$1,070/month). In addition, Beirut has the highest average number of engaged persons, followed by Mount Lebanon, Bekaa, North Lebanon, and the South.

The highest value-added per worker is in Beirut (\$1,265/month), followed by South Lebanon (\$566/month), Mount Lebanon (\$499/month), North Lebanon (\$436/month) and the Bekaa (\$333/month).

It is interesting to note that the value-added per worker in Bekaa and north Lebanon is far below the national average, which again reflects the predominance of poverty in these two regions.

III.12.4 Value added and gender

Gender differences in value-added are noted. Female-run enterprises have lower value-added figures than male-run enterprises, with a ratio of female to male value-added equivalent to 58%. The value-added of female-run MSEs is \$900/month compared to \$1,541/month for males. This is in line with national surveys which indicated that income and wages are lower for females than for males.

However, the disparity becomes less severe when value-added per worker is taken into consideration, and in which the ratio of female value-added to male is 83%. In this regard, the monthly value-added per worker for female-run MSEs is \$460, compared to \$542 for male-run MSEs.

III.12.5 Value-added and Clusters

Around 41% of surveyed MSEs declared that they have neighboring enterprises engaged in activities related to their business. However, the figure should be analyzed with precaution as it represents the perception of the respondent only, which might not reflect reality. In other words, the interviewee is the person who decides if neighbor enterprises are linked/related to his/her line of business and therefore if the enterprise is part of a cluster or not. In most cases, interlinkages between enterprises are very weak since the majority of them target households as their main customer and do not produce semi-finished products to be used by other enterprises. The table below illustrates this perception (Table 20).

Table 20: MSEs and Clusters

Are there neighboring enterprises engaged in activities related to your business?			
	Yes	No	Total
Respondents	1215	1726	2941
%	41.3%	58.7%	100%
Type of Cluster			
	“normal” cluster	Industrial estate	Total
Respondents	1049	65	1214
%	86.4%	13.6%	100%
Do you benefit from neighbor enterprises?			
	Yes	No	Total
Respondents	795	410	1205
%	66%	34%	100%

Only 13.6% of clustered MSEs are part of an industrial zone, and around two third of clustered MSEs declared that they benefit from neighbor enterprises. However this positive impact is not detected in terms of value-added: only 204 out of 1215 clustered MSEs answered value-added related questions.

III.12.6 Value-added and technology

Technological advancement is positively related to value-added. That is, the more updated the technology in the MSE is, the higher is the value-added of the enterprise: it amounts to \$3,193/month in those MSEs that access the latest technology, compared to \$992/month for those enterprises that do not. The pattern that emerged illustrates an increasing value-added rate correlated with technology usage. The value-added per enterprise that uses latest technology is 3.2 times that of enterprises that do not use the latest technology and 2.1 greater than the average value-added for surveyed MSEs (Table 21).

Table 21: Value-added per MSE and Worker, and Use of Latest Technology

	Do you use the latest technology		
	Yes	No	Total
Weighted value added per worker at interview time in US\$	764	473	545
Value added per enterprise at interview time in US\$	3,193	992	1,538
Valid N	144	436	580
Average number of persons engaged	3.1	2.1	2.4

This is an expected impact as several studies have shown the effects of technological advancement on the productivity of enterprises. There is, however, a point of caution, as the impact of technology has not been isolated in surveyed MSEs, hence it is difficult to assume that this increase in efficiency is solely due to the change in technology usage.

The monthly added value per worker also increases with technological use, and is 1.6 times in those enterprises that use latest technology compared to those that do not. In fact, the value added per worker in enterprises using the latest technology amounts to \$764/month compared to \$473/month in enterprises that do not use it. In addition, the average value-added per worker in enterprises that use latest technology is 1.4 times greater than the national average (\$536/month for workers as a whole).

Similar to the pattern set above, the average value-added for enterprises with up-to-date technology is more than triple that for enterprises that use traditional technology, and 28% higher than those using modern technology. (Refer to Table above)

The analysis per worker reveals similar results, where increased return is manifested, however, with less drastic differences in value-added. Based on value-added per worker, the difference between traditional enterprises and up-to-date technology is almost two fold. However, the difference between modern technology users and up-to-date technology users is more manifested with up-to-date enterprises having 42% more value-added per worker than modern enterprises. Indeed, the value-added per worker in enterprises using modern technology is \$591/month compared to \$436/month in traditional ones and \$841/month in those using up-to-date technology.

III.12.7 Value added and internal organization

Organization, and subdivision of enterprises into departments has an impact on the value-added of the MSE. The more organized the enterprise, the more likely it is to have a higher value-added, where the latter for enterprises that have specific organizational structure is 7,206 per enterprise, and 1,288 per worker. This is also correlated with the size of the MSE, as smaller MSEs do not have any need for internal organizational structures.

These figures have to be treated with caution due to the low number of MSEs indicating that they have specific internal organization. However, the table below serves to give an illustration of possible impact of organization upon the value-added of enterprises, and not to provide a nationwide indicative figure (Table 22).

Table 22: Value-added and Existence of Specific Departments within Enterprise

	No	Yes	Total
Value added per enterprise at interview time (\$)	1,288	7,206	1,492
Value added per worker at interview time (\$)	511	1,142	533
Number of observations	589	22	611

III.12.8 Value-added and present value

Theoretically, the higher the present value of the enterprise, the higher its productivity. This is validated by the results obtained for the sample.

Table 23 illustrates a pattern of increase in value-added per enterprise with increasing value of the enterprise. The hotel & restaurant sector has the highest value-added per enterprise and the highest present value. Industry has the second highest present value and the second highest value-added.

Table 23: Value-added per MSE, Present Value and Sector of Activity

Sector	Average present value	Monthly value-added
Industry	81,957	1,721
Construction	39,075	551
Trade	29,076	1,403
Hotels & restaurants	355,722	3,038
Other sectors	20,553	963
Total	55,913	1,493

III.12.9 Value added and subcontracting

Enterprises engaged in subcontracting relationships with other enterprises have higher value-added per enterprise and worker than those that do not have such associations. Enterprises that declared a subcontracting relationship have an average value added of \$4,553.5, compared to of \$1,134.2 for those without any subcontracting relationships. Value-added per worker for subcontracting enterprises is also higher (\$738.7/worker), compared to enterprises without subcontracting relationships (\$511.5/worker). In this context, subcontracting tends to increase profit and thus value-added.

III.12.10 Value-added evolution

Tables 24 and Table 25 show the results of the calculated monthly value-added per enterprise in both the current and previous years of the survey. The number of respondent was added to the table in order to evaluate the pertinence of each figure. Indeed, some figures were generated based on a small sample, therefore generalizations should be done carefully.

Overall, there have been noticeable improvements in value added for enterprises and workers over the figures for the year preceding the survey. Such improvements, which were not uniform, fit to a great extent the improvement in the overall GDP growth rate during 2003/04, which, for the first time since 1997 resumed its ascending trend.

III.13 Characteristics of entrepreneurs

In the context of the survey, 2,948 entrepreneurs were interviewed. They are the main driving forces behind the success or failure of the respective MSEs. Thus, the characteristics of these entrepreneurs, whether in terms of education, training or employment history, have an impact on the performance of the enterprises in question. This section traces the characteristics of the interviewed entrepreneurs.

III.13.1 Owners and managers

The majority of interviewed entrepreneurs are owners: 78% own their enterprises, while 22% manage such enterprises. Males are more likely to be owners than females as 78.5% of all male entrepreneurs owned their enterprises compared to 67.8% of female-owned enterprises. Consequently, the percentage of females managing enterprises is higher with 32.2% compared to 21.5% of male managers.

III.13.2 Age and marital status

Table 26 describes the age of the entrepreneur, cross-tabulated with other variables (gender, and size of the MSE).

It is noted that the highest percentage of entrepreneurs are in the 30-49 age bracket – 61 percent males and females mixed. These bear gender differences, where a higher percentage of female entrepreneurs are observed to start their business at an earlier age: 26% of female entrepreneurs are below 30 years

of age compared to 19% of male entrepreneurs; 46% of male and 60% of female entrepreneurs are below the age of 40.

Table 24: Value-added per Enterprise Comparison (current and previous year of survey)

Value-added per enterprise	Current year	Last year	Difference	N current	N previous
Size (no. of employees)					
1	534	505	5.7%	271	259
2-4	1,218	1,184	2.9%	300	277
5-49	10,050	9,696	3.7%	40	40
Total	1,493	1,470	1.6%	611	576
Sector					
Industry	1,721	1,577	9.2%	65	67
Construction	551	551	0.0%	2	2
Trade	1,403	1,376	2.0%	432	404
Hotels & Restaurant	3,038	3,583	-15.2%	41	34
Other	963	900	7.0%	71	69
Location					
Beirut	6,780	6,983	-2.9%	57	53
Mt. Lebanon	1,224	1,194	2.6%	161	145
Beqaa	709	660	7.3%	114	104
North Lebanon	754	723	4.3%	161	157
South Lebanon	1,070	1,035	3.4%	118	117
Gender					
Male	1,541	1,519	1.4%	565	533
Female	900	856	5.2%	46	43
Technology					
Uses latest technology	3,193	3,159	1.1%	144	138
Doesn't use latest technology	992	974	1.8%	436	408
Traditional technology	763	720	6.0%	215	204
Modern technology	1,956	2,002	-2.3%	335	312
Up-to-date technology	2,509	2,057	22.0%	29	30
Organization					
Department	7,206	7,332	-1.7%	22	20
No department	1,288	1,259	2.3%	589	556

In addition, around 50% of enterprises with only one worker are run by entrepreneurs in the 30-49 age bracket, while a higher percentage of 2-4 employee enterprises are run by those below 30 years of age. The highest percentage of MSEs with 10-49 employees is operated by older entrepreneurs in the 50-59 years age group.

As shown in the table 27, the majority of MSEs were established at an early age (72% of MSEs were established when the entrepreneur was 15-24 years of age), while only 10.9% are established by those older than 25 years of age. It is noted that a relatively high percentage of MSEs were established by young entrepreneurs (17% established by people younger than 15 years of age).

This is, however, gender sensitive, where females tend to establish MSEs at an older age (only 4.4% of female-run enterprises, compared to 18% of male-run enterprises, were established when the entrepreneur was younger than 15 years). Females also tend to establish their enterprise at older age groups (only 2.5% of male run enterprises, compared to 14.5% of female run enterprises, were established when the entrepreneur was older than 30 years).

Although the establishment of MSEs peaks when the entrepreneur is 15-19 years of age, one-employee enterprises continue to be established in all age categories especially in the age bracket 30 years and above. It is noted that bigger enterprises are established at the 15-19 year age group.

As observed in Table 28, 73% of entrepreneurs are married, whereas 26% are single, and less than 2% are divorced or widowed. Gender differences are noted in this categorization, with a higher number of single (40%), divorced, and widowed female entrepreneurs. The percentage of widowed female entrepreneurs is more than 11 times that of widowed males – 4.7 and 0.4% respectively –, and the

percentage of divorced female entrepreneurs is more than 5 times that of males – 2.1 and 0.4% respectively.

Figure 10: Age (at first work) Distribution of Entrepreneurs According to Age and Gender

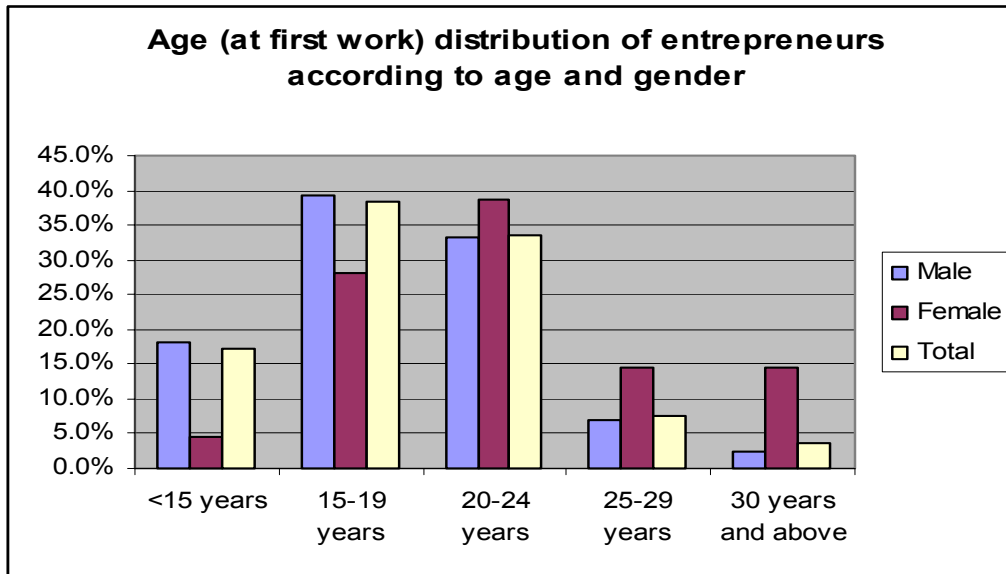


Table 25: Value-added per Worker Comparison (current vs. last year)

Value-added per worker	Current year	Last year	Difference	N current	N previous
Size					
1	534	505	5.7%	271	259
2-4	476	467	2.0%	300	277
5-49	993	930	6.8%	40	40
Total	536	516	3.8%	611	576
Sector					
Industry	596	540	10.4%	65	67
Construction	421	421	0.0%	2	2
Trade	550	531	3.5%	432	404
Hotels & Restaurant	381	419	-8.9%	41	34
Other	488	458	6.6%	71	69
Location					
Beirut	1,265	1,230	2.8%	57	53
Mt. Lebanon	499	483	3.3%	161	145
Beqaa	333	304	9.4%	114	104
North Lebanon	436	422	3.3%	161	157
South Lebanon	566	548	3.1%	118	117
Gender					
Male	542	523	3.6%	565	533
Female	460	433	6.2%	46	43
Technology					
Uses latest technology	764	742	3.0%	144	138
Doesn't use latest technology	473	457	3.5%	436	408
Traditional technology	436	412	5.9%	215	204
Modern technology	591	589	0.4%	335	312
Up-to-date technology	841	710	18.4%	29	30
Organization					
Department	1,142	1,149	0.6%	22	20
No department	511	493	3.6%	589	556

Table 26: Age (current) Distribution of Entrepreneurs According to Size of Enterprise

Size (no. of employees)	<30 years	30-39 years	40-49 years	50-59 years	More than 60 years	Total
1	17.5%	25.0%	25.3%	17.9%	14.2%	100%
2-4	22.3%	29.6%	26.5%	14.1%	7.5%	100%
5-9	17.1%	31.1%	30.5%	14.0%	7.3%	100%
10-49	19.8%	21.0%	32.1%	23.5%	3.7%	100%
Total	19.8%	27.4%	26.4%	16.0%	10.4%	100%

Table 27: Age (at first work) Distribution of Entrepreneurs According to Age and Size of Enterprise

	<15 years	15-19 years	20-24 years	25-29 years	30 years and above
1	17.3%	35.8%	36.3%	6.5%	4.1%
[2-4]	17.2%	40.5%	31.0%	8.0%	3.3%
[5-9]	20.2%	36.8%	33.1%	8.6%	1.2%
[10-49]	7.6%	49.4%	32.9%	10.1%	0.0%
Total	17.1%	38.4%	33.6%	7.4%	3.5%

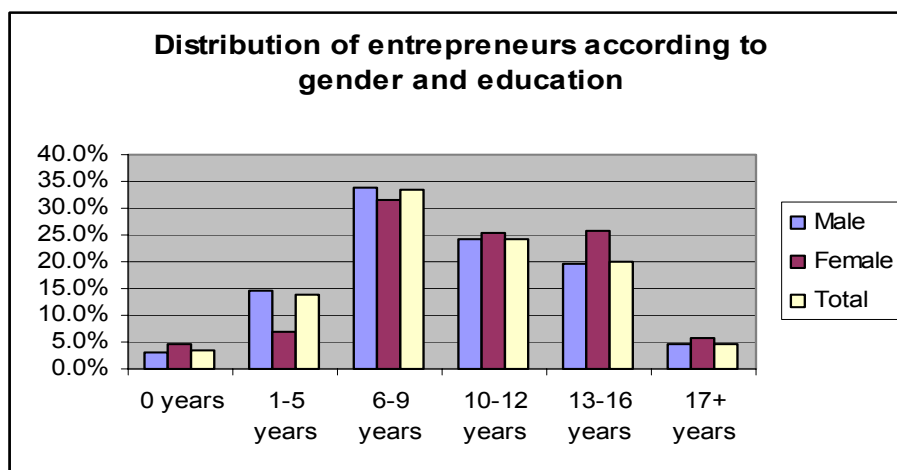
Table 28: Age (at first work) Distribution of Entrepreneurs According to Gender and Marital Status

	Never Married	Married	Widow	Divorced	Total
Male	24.9%	74.3%	0.4%	0.4%	100%
Female	40.3%	52.8%	4.7%	2.1%	100%
Total	26.2%	72.6%	0.7%	0.5%	100%

III.13.3 Educational characteristics

The distribution of entrepreneurs according to education levels reveals that 16.3% are either illiterate or only completed the first elementary cycle, while 24.7% are either high school or university graduates. However, the percentage of illiterates is lower than the national average of 7.2%¹⁹ of total workers. A gender-education trend depicts that the number of years invested in education decreases for males while it increases for females. In other terms, illiteracy starts higher among female entrepreneurs (4.8% for females and 3.2% of males) yet the percentage of women who have completed schooling or university studies is higher than that of males (31.5% females and 24.1% males). This is perhaps a reflection that most of the female owned enterprises have a starting date of less than five years.

Figure 11: Distribution of Entrepreneurs According to Gender and Education



¹⁹ Living conditions- CAS 1997

The category "other" has the most educated entrepreneurs (in terms of years of education), followed by hotels and restaurants, trade and industry. The illiterates and less educated are mainly found in the industrial sector (19% in industry compared to 18.8% in trade, 14.4% in hotels and restaurants, 8.6% in other sectors).

Table 29: Distribution of Entrepreneurs According to Sector of Activity and Education

No. of years in education	Industry	Construction	Trade	Hotels & restaurants	Other sectors	Total	No. of responses
0 years	2.3%	0.0%	3.6%	2.1%	2.7%	3.3%	96
1-5 years	16.7%	21.1%	15.2%	12.3%	5.9%	14.0%	408
6-9 years	41.6%	21.1%	32.5%	41.8%	31.5%	33.6%	976
10-12 years	15.2%	15.8%	24.6%	19.9%	31.7%	24.4%	709
13-16 years	21.0%	31.6%	19.7%	19.2%	21.5%	20.1%	585
17+ years	3.1%	10.5%	4.4%	4.8%	6.7%	4.6%	134
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	2908
No. of responses	257	19	2114	146	372	2908	

There is a clear relationship between the size of the enterprise and the level of education of the entrepreneur. Thus, while more educated entrepreneurs having between 13 and 16 years of education account for 14.5% of category one enterprise, this percentage increases to 50% of category 10-49 enterprises. This relation is also repeated in the higher studies category.

Table 30: Distribution of Entrepreneurs According to Size and Education

No. of education years	Size (no. of employees)				Total	No. of responses
	1	2-4	5-9	10-49		
0 years	5.1%	1.9%	1.9%	0.0%	3.3%	96
1-5 years	17.8%	11.7%	8.7%	2.6%	14.0%	408
6-9 years	36.6%	33.5%	17.4%	17.9%	33.6%	976
10-12 years	23.0%	25.1%	31.1%	20.5%	24.4%	709
13-16 years	14.5%	22.4%	31.7%	50.0%	20.1%	585
17+ years	2.9%	5.4%	9.3%	9.0%	4.6%	134
Total	100.0%	100.0%	100.0%	100.0%	100.0%	2908
No. of responses	1306	1363	161	78	2908	

This correlation is significant, since value-added for enterprises belonging to category 5-49 is much higher than value-added for the other categories of enterprises. Thus, a positive correlation exists between education and the value-added of the enterprise.

In terms of vocational training, only 9.8% of the sample indicates that they have had access to such type of education. It should be noted that a higher percentage of female entrepreneurs had vocational and technical education as opposed to male entrepreneurs (15% for females and 9.3% for males).

A lower percentage of entrepreneurs accessed apprenticeship experience (only 9.8% of the sample). No major gender differences were observed at this level.

III.13.4 Years of experience

Most of the surveyed entrepreneurs have 10-19 years of experience (24%), followed by those who have 5-9 years of experience (22%) and 1-4 years of experience (21%). Gender differences are observed, where a higher percentage of female entrepreneurs have less than 4 years of experience (49%) compared to males (33%).

III.13.5 Employment history

The results of the survey reveal that previous employment history differs significantly among entrepreneurs. Around 54% were employees in their earlier occupation, while 25% worked on their own account, 8.5% were family workers and only 8.4% were employers. Females were mostly employees (66%), while only a small proportion were employers (4.7%) compared to males (8.5%). In addition, only 20.8% of females worked on their own account, 3.8% of females were family workers.

The entrepreneurs opted to change occupations for several reasons. The most prevalent reason was low earnings (23%), and bad working conditions (21%). Around 11% changed their previous occupation due to family reasons, while only 1.2% were laid off.

Gender analysis reveals that low earning was cited as the primary reason for employment change for males (23.6%) more than for females (14.9%), while more females changed jobs for family reasons (15.8% for females and 10.9% for males) indicating conflicting roles between family obligations and professional obligations. In addition, almost the same percentage of females complained about bad working conditions as males – around 21% – while more males altered jobs consequent to a change in their geographic location – 9.7% compared to 5.9% females.

Of those who changed employment, the drive for 21.4% was the previous experience in the business, for 15.3% the suitability with qualifications, and for 16.8% the need to improve living conditions, however 16.6% expressed the desire to set up new enterprises. More females: choose their present occupation because it suits their qualifications (20% for females and 15% of males); strive for improving their living conditions (20.5% for females and 16.4% for males); and do not have options (7.5% for females and 5.9% of males). Conversely, more males choose the occupation as they have experience in it (21.6% for males and 18.3% for females), because it is the family business (13.7% of males and 8.3% of females), and because they want to set up a new enterprise (17% for males and 11.8% for females).

III.13.6 Gender considerations

In addition to being gender disaggregated, the questionnaire used in the field survey contained a specific part related to gender issues. The tables below detail these results. It should be noted that respondents should know at least one woman entrepreneur in order to answer the questions (25% of the surveyed entrepreneurs know at least one woman entrepreneur, of the former 78% are males). Around 50% of the respondents (of whom 80% are males) found that women entrepreneurs face specific problems. A categorization of these constraints is presented in Table 31.

Table 31: Problems Facing Women Entrepreneurs

Constraints faced by women entrepreneurs	Yes	No	No answer	Total
Problems in setting up enterprise	40.1%	59.5%	0.4%	100%
Problems in hiring workers	31.4%	67.8%	0.8%	100%
Problems in managing business	22.6%	76.6%	0.8%	100%
Problems in marketing	23.4%	75.4%	1.2%	100%
Problems in benefiting from financial services	19.2%	80.8%	0.0%	100%
Problems in securing contracts	19.5%	78.8%	1.7%	100%
Problems in joining business associations	20.5%	79.1%	0.4%	100%
Personal harassment	74.8%	24.8%	0.4%	100%

The largest constraint faced by women entrepreneurs is personal harassment (74.8%), followed by problems related to setting up an enterprise (40%), hiring workers (31%), and to a lesser extent marketing (23.4%), and joining business associations (20.5%).

Around 56% of female entrepreneurs declared that they do need a household permission in order to be in business, and in 74% of the cases this permission was issued by the husband.

In addition, 62.6% of female entrepreneurs declared that the worst constraints on business come from the household (versus 37.4% from the community), and 54% of female entrepreneurs declared that they do suffer from the conflict between professional and family duties. However, 66.5% feel empowered by earnings.

III.14 Employment Generated by MSEs in Lebanon

One of the major attributes of SMEs is their contribution to employment. Due to the fact that these enterprises make up the bulk of the existing enterprises, their employment behavior significantly affects national employment and unemployment trends. The enterprises surveyed in the context of this study in Lebanon generated 7,369 jobs, translating into 2.5 employees per enterprise.

As mentioned previously, one-employee enterprises have an average of one person per enterprise, category 2-4 enterprises have an average of 2.5 persons, category 5-9 have an average of 6.1 persons while category 10-49 have an average of 19.4 employee per enterprise. Thus, category 10-49 enterprises generate 21.3% of total employment within MSEs, while accounting for only 2.7% of total enterprises. The major contributor to employment in MSEs is the 2-4 employee category of MSEs, accounting for 46.8% of enterprises and 47.2% of employment. It should be noted that this category of MSEs had the lowest growth rates of value-added per enterprise and per worker.

Table 32: Employment Generation According to Enterprise Size

	Size (no. of employees)				Total	Number of responses
	1 empl.	2-4 empl	5-9 empl	10-49 empl.		
Average number of persons engaged	1.0	2.5	6.1	19.4	2.5	N/A
Total share of workers	18.0%	47.2%	13.6%	21.3%	100.0%	7369
Total share of enterprises	44.9%	46.8%	5.6%	2.7%	100.0%	2948
Std. Deviation	-	0.7	1.2	10.0	3.5	N/A

Sectoral division of generated employment reveals that 61.5% are in trade, while 13.7% of the jobs are in industry, 10.7% are in hotels and restaurants, while 12.9% are in other sectors. Furthermore, these percentages differ from those at the national level as this survey excludes workers in the public sector and agriculture, as well as big enterprises that have more than 50 employees.

Table 33: Distribution of MSEs According to Workforce Generated per Sector of Activities

	Industry	Construction	Hotels & Restaurants			Total	No of responses
			Trade	Hotels & Restaurants	Others		
Average number of persons engaged	3.9	4.7	2.1	5.2	2.5	2.5	N/A
Total share of workers	13.7%	1.2%	61.5%	10.7%	12.9%	100.0%	7369
Total share of enterprises	8.8%	0.6%	72.6%	5.1%	12.9%	100.0%	2948
Std. Deviation	4.8	7.4	2.6	8.0	3.3	3.5	

However, in terms of average workers per enterprises by sector, the analysis reveals that establishments in the hotel and restaurant sector employ 5.2 workers per enterprise, followed by construction at 4.7, industry at 3.9, and trade at 2.1. Thus, increasing the number of enterprises engaged in hotel & restaurant activities, or industrial activities, is likely to generate more jobs than increasing the number in trade and other sectors.

III.15 Mixed income and wages

III.15.1 Mixed income

Mixed income is equivalent to the profits generated by MSEs and is calculated on a monthly basis. As with other parameters of analysis in the context of this study, the level of the mixed income is affected by gender, sector, size, and location.

The study revealed that the average mixed income per owner/manager is \$1,486/month. It is higher for males (\$1,522) than females (\$1,019). In this context, females retain 61% of what males retain from their economic activities. This may be due to the fact that females have to compete more on terms of price in order to establish themselves, whereas older male run enterprises are less likely to resort extensively to competitive prices to ensure their sustainability. In addition, there are other variables that affect this gender discrepancy, including the fact that males work longer, are higher in the hierarchy, etc.

In terms of sectoral distribution, the highest average monthly mixed income is registered in hotel and restaurants (\$1,740) and trade activities (\$1,624), followed by industry (\$1,208) and other sectors (\$892). The dominance of trade in terms of mixed income explains the propensity of Lebanese entrepreneurs to engage in this activity rather than opting for more challenging and costly alternatives.

Table 34: Mixed Income and Sector of Activity

	No. of responses	Average mixed income
Industry	41	\$1,208
Construction	1	\$256
Trade	209	\$1,624
Hotels & restaurants	32	\$1,740
Other sectors	41	\$892
Total	324	\$1,486

Mixed income follows patterns set earlier in present value and value added in that there is a clear positive correlation between the size and the level of mixed income. The highest mixed income is observed in larger MSEs (\$14,822 in enterprises with 10-49 employees), compared to small MSEs (\$4,262 for enterprises with 5-9 employees and \$830 in 2-4 employee enterprises), and micro enterprises (\$300 for one-worker enterprises).

Finally, as is the case for other variables, location also has a bearing on mixed income, with Beirut having an average mixed income 4.5 times higher than the national average (\$7,072), while North Lebanon has a mixed income 3.3 times lower than the national average (\$303), knowing that the national average is \$1,486. South Lebanon has an average mixed income of \$1,130, reflecting perhaps the fact that it is more urbanized with three major cities, which may explain the discrepancy with respect to North Lebanon and the Bekaa. The low levels in the latter two regions are indicative of wealth distribution and poverty in the country.

III.15.2 Wages

The data gathered does not allow us to draw conclusions regarding wages of employees working in MSEs. However, the numbers obtained do provide a picture of the prevalent situation, although further analysis and studies are needed to elaborate on this issue. This section will present the wage results according to gender, size, and sector.

Although the number of responses is not representative, the survey reveals that the average monthly wage is \$280/employee, and is higher in female-owned enterprises (\$333) than in male-owned enterprises (\$277). Furthermore, the wages of employees are relatively low – well below the poverty line yet well above the minimum wage declared by the government. These results of wage differentials can partially explain the difference in mixed income between males and females, and also the near equality in terms of value added per worker in female and male-owned enterprises.

Since one-employee enterprises do not have any workers, there is no wage bill in these MSEs. However, it is noted that the average wage increases according to the size of the enterprise, reaching \$417 in enterprises of 10-49 employees. What is of interest is that the average wage in all the surveyed enterprises (amounting at \$280) is 40% higher than the national minimum wage rate declared by the government of \$200/month. However, the average for categories 2-4 and 5-9 enterprises is lower than the national average of earning per worker registered at \$450/month in 1997 - \$261 and \$325 respectively. In addition, most of the employees working in MSEs earn less than the household poverty line estimated at \$340/month for a family of 4.6 members in 2003.

The highest average wages are registered in the hotel and restaurant sector (\$368), followed by industry (\$335), other sectors (\$305), and trade (\$249). The low level of wages in trade activities contrasts with the high mixed income averages obtained for this sector, while the low level of mixed income generated in hotels and restaurants and in industry can be partially justified by their higher wage averages.

III.15.3 Household income

The field survey also included a specific questionnaire related to the entrepreneur's household. The household income distribution is shown in the tables below which provide data on the monthly household income according to the size of enterprise, gender, and region.

In general, the highest percentage of surveyed households earn a monthly income in the LBP 1,200,000-1,600,000 range (19.9%), followed by those earning LBP 800,000-1,200,000 (17.9%) or

LBP 1,600,000-2,400,000 (17%). Around 7.7% of households earn less than LBP 500,000, while 14.9% earn LBP 500,000-800,000. In addition, 21.7% of households earn more than LBP 2,400,000 per month.

Compared to the national monthly household incomes, these households are better off: nationally, 18.9% of households earned less than LBP 500,000/month, 21.1% of households earned LBP 500,000-800,000, and 13.3% of households had a monthly income of more than LBP 2,400,000 (1997 figures).

Monthly household incomes for the survey sample increase drastically with the size of the enterprise, where 31.6% of enterprises with 10-49 employees earning more than LBP 3,200,000/month compared to 9% of one worker enterprise. Conversely, only 5.3% of enterprises with 10-49 employees, compared to 10.6% of one-worker employees, earn a monthly household income less than LBP 500,000.

Table 35: Household Monthly Income Distribution and Size of Enterprise

Size (no. of employees)	Income Bracket (in thousand LBP)							Total
	<500	500-800	800-1200	1200-1600	1600-2400	2400-3200	>3200	
1	10.6%	17.8%	18.8%	20.3%	15.6%	7.9%	9.0%	100.0%
2-4	5.1%	12.9%	18.0%	20.2%	18.1%	11.4%	14.4%	100.0%
5-9	5.6%	7.3%	13.7%	14.5%	23.4%	7.3%	28.2%	100.0%
10-49	5.3%	12.3%	8.8%	15.8%	10.5%	15.8%	31.6%	100.0%
Total	7.7%	14.9%	17.9%	19.9%	17.0%	9.7%	13.0%	100.0%
CAS(*) ²⁰	18.9%	21.1%	21.2%	13.4%	12.1%	5.9%	7.4%	100.0%

Household income also varies based on gender considerations. A higher percentage of females earn less than LBP 500,000 (10.2% compared to 7.5% for males), but these differences become almost negligible for other income brackets ranging from LBP 800,000 to 1,600,000. It is interesting to note that a higher percentage of females earn between LBP 1,600,000 and 2,400,000 – 18.7% compared to 16.9% for males. However, when it comes to the highest income bracket it is characterized by higher male earnings (13.1% of males and 11.8% of females earn more than LBP 3,200,000/month).

Household incomes also vary with the geographic location. A higher percentage of low-income brackets are in Mount Lebanon and South Lebanon, while a higher percentage of high-income brackets are observed in Beirut.

Table 36: Household Monthly Income Distribution and Location

Region	Income Bracket (in thousand LBP)							Total
	<500	500-800	800-1200	1200-1600	1600-2400	2400-3200	>3200	
Beirut	6.9%	13.4%	15.4%	18.6%	16.3%	9.8%	19.6%	100.0%
Mount Lebanon	10.6%	17.5%	15.9%	17.0%	16.6%	10.9%	11.5%	100.0%
Bekaa	5.1%	19.8%	21.4%	23.7%	13.2%	8.7%	8.1%	100.0%
North Lebanon	4.9%	7.8%	15.0%	24.1%	21.1%	11.3%	15.9%	100.0%
South Lebanon	9.7%	17.5%	24.6%	15.6%	15.6%	5.9%	10.9%	100.0%

III.16 Future expectations

The study estimated the future expectations as perceived by the entrepreneur. Indeed, the respondents had to evaluate the evolution, for the following year, of a selected list of variables. The list is constituted of the following variables:

- Employment (i.e. number of employees)
- Area of economic unit
- Output (i.e. production)
- Assets (i.e. land, building, equipments)

²⁰ Living Conditions, Central Administration of Statistics, 1997

- Acquisition of modern technology
- Revenues
- Domestic marketing
- Exports
- Adding new products

For each of the above mentioned variable, the entrepreneur had to specify if it is going to grow, stay stable or decrease (contraction) during the year 2005. Table 37 shows these expectations.

Table 37: Future Expectations

Activity	Expectations for the future			Total	Do not know
	Contraction	Stable	Growth		
Employment	5%	78%	17%	100%	14%
Area of economic unit m ²	2%	81%	17%	100%	13%
Output	7%	51%	42%	100%	20%
Assets (land, building, equipment)	5%	72%	23%	100%	24%
Acquisition of modern technology	5%	62%	34%	100%	27%
Revenues	14%	50%	36%	100%	30%
Domestic marketing	9%	36%	54%	100%	28%
Exports	8%	73%	19%	100%	49%
Adding new products	6%	57%	37%	100%	46%

An index was elaborated in order to consolidate the results and allow cross-tabulation.

The index calculation was applied as follow:

- “do not know” answers were excluded
- a point equivalent to (-1) was given to answers “Contraction”
- a point equivalent to (0) was given to answers “Stable”
- a point equivalent to (+1) was given to answers “Growth”

It is interesting to note that the lowest growth expectations are in employment and in the surface of economic unit. The biggest contraction is likely to occur in the revenues section, followed by domestic marketing and output. The biggest increase in expectations is in domestic marketing, followed by output, new products, revenues, and technology.

The Figures 12 and 13 illustrate future expectations index according to gender and size of MSEs.

Figure 12 illustrates that female entrepreneurs are more optimistic than male entrepreneurs when it comes to employment, revenues, and acquisition of modern technology. Male entrepreneurs are more optimistic when it comes to domestic marketing, exports, and assets.

In terms of size, there is a positive relationship between positive expectations and size of enterprise. Enterprises with 10-49 employees are significantly more optimistic regarding almost all issues, but are particularly positive on exports, revenues, and employment.

Figure 12: Future Expectations Index and Gender

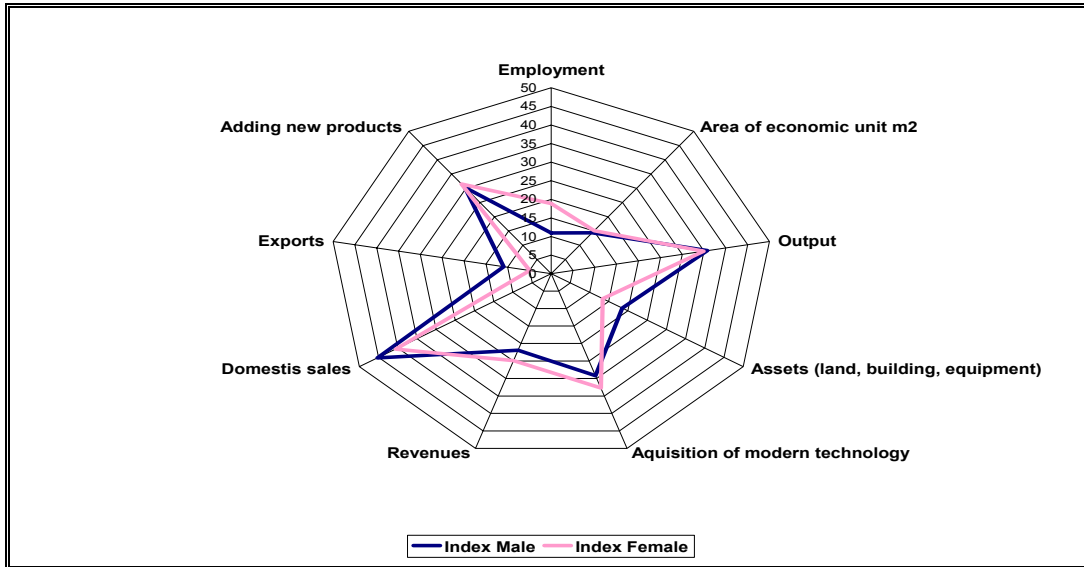
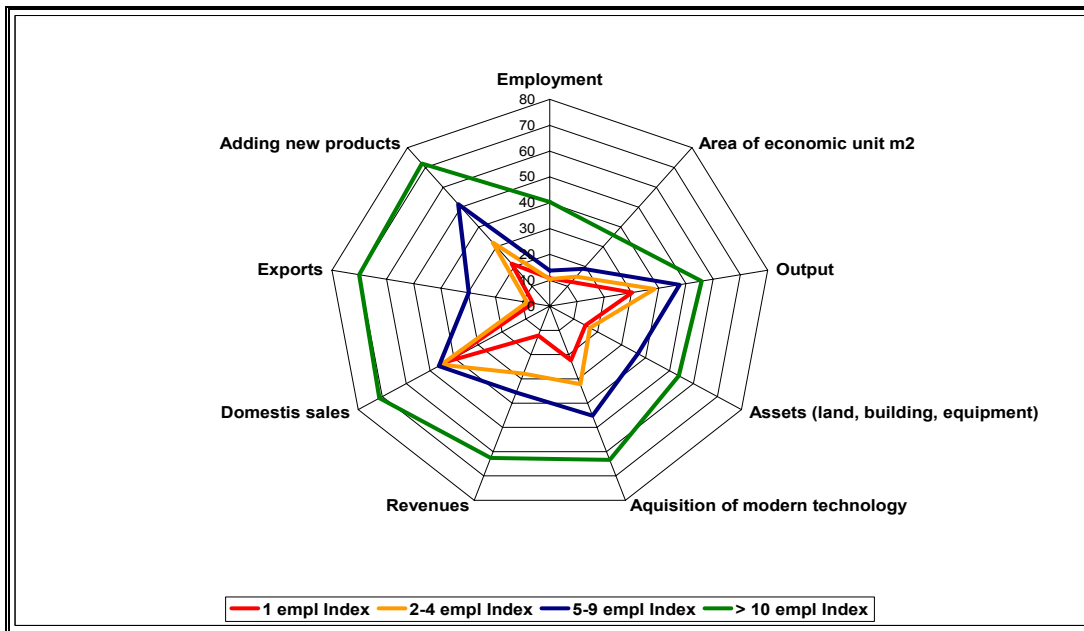


Figure 13: Future Expectations Index and Size



III.17 Performance

Performance, the indicator that tells how well a company is doing, is a measure that is influenced by many factors, among which are the size of the enterprise, gender, geographical location, and sector of activity.

Different analyses were undertaken in the context of this research to measure the performance of the surveyed MSEs. The adopted scenario defines two indicators that best summarize performance: the monthly value-added per worker and the monthly sales per worker. Although these indicators might seem overlapping, the latter was introduced to evaluate firms with the same monthly value added per worker. In this case, performance would be based on monthly sales per worker.

The two quantitative indicators defined above were transformed into six classes in order to acquire a qualitative feature, which will be the basis for comparing the performance of MSEs according to different factors. The delimitation of the classes is based on two criteria: both class ranges and

frequency distribution do not show huge differences among classes. Thus, ranges have been chosen in such a way that made classes comparable and frequencies significantly distributed among the selected classes.

The analysis was based on a fraction of the total MSEs approached by the questionnaire, since around only 20% of the surveyed enterprises have provided responses to questions pertaining to performance. Tables 38 and 39 outline the classes as follows: classification by monthly sales per worker and classification according to monthly value-added per worker.

Table 38: Classification by Monthly Sales per Worker

Monthly Sales / Worker Classification		
Class	Range (US\$)	No. of Respondents
class 1	[0;200[	63
class 2	[200;400[	156
class 3	[400;600[	133
class 4	[600;1000[	91
class 5	[1000;1600[	83
class 6	[1600;+[	85
Total	[0;+[	611

Table 39: Classification According to Monthly Value-Added per Worker

Monthly Value-Added / Worker Classification		
Class	Range (US\$)	No. of Respondents
class 1	negative	41
class 2	[0;100[	79
class 3	[100;200[	108
class 4	[200;500[	198
class 5	[500;1000[	109
class 6	[1000;+[	76
Total	[0;+[	611

Table 40: Monthly Value-added per Worker and Monthly Sales per Worker

		Classification VA per Worker						Total
		class 1	2	3	4	5	6	
Classification Sales per Worker	1	15	32	16				63
	2	13	25	67	51			156
	3	8	16	14	94		1	133
	4	2	2	9	33	44	1	91
	5	3	1	1	17	50	11	83
	6		3	1	3	15	63	85
	Total		41	79	108	198	109	76	611

Combining the above two classifications allowed arranging surveyed MSEs based on their level of performance. Five performance levels were defined, ranging from “very high” to “very low”. This qualitative categorization was based on the cross-tabulation presented in Table 40, which shows the two classifications defined earlier and the number of MSEs at each of the performance levels (Table 41).

Table 41: Performance Classification

Performance Classification	Number of MSEs
Very high	76
High	160
Middle	163
Low	124
Very Low	88
Total	611

Table 41 consolidates the results displaying the total number of MSEs at each level of performance. The figures of this table will be considered in determining the final indicators, which will be used for comparing performance levels of different MSEs according to various factors.

At this stage, the performance could be cross-tabulated with each of the different factors (size, gender, geographic location, etc). However, it would be interesting to carry the analysis further and create a “Performance Indicator” that would synthesize the results obtained in the cross-tabulation mentioned above. We graded each of the performance levels from 0 for “very low” to 10 for “very high”. These grades were used to weigh the percentages and thus to devise the final performance indicator.

The whole process is demonstrated below by taking the size of MSEs as an example.

Table 42: Performance Indicator and Size of MSEs

<i>Performance</i>	<i>Size of MSEs</i>				<i>Total</i>	<i>Grade</i>
	<i>1</i>	<i>2-4</i>	<i>5-9</i>	<i>10-49</i>		
<i>Very Low</i>	13%	16%	13%	11%	14%	0
<i>Low</i>	18%	23%	19%	11%	20%	2.5
<i>Medium</i>	28%	26%	26%	11%	27%	5
<i>High</i>	28%	25%	23%	22%	26%	7.5
<i>Very High</i>	13%	10%	19%	44%	12%	10
Total	100%	100%	100%	100%	100%	
<i>No. of respondents</i>	271	300	31	9	611	
Performance Indicator	5.2	4.8	5.4	6.9	5.0	

The following section sheds light on the effect of changes in major factors on MSEs performance levels. Many factors will be analyzed, with special emphasis to be given to those mentioned in the terms of reference. The analysis and results presented below are based on the performance indicators arrived at, taking into consideration the Lebanese context.

III.17.1 Size of the MSE

In general, performance is directly related to the size of the firm, with the exception of firms with only one employee. The indicator shows that as the number of employees increases, firms tend to record better performance levels, with the best being firms with a number of workers varying between 10 and 49. This could be attributed to the fact that more employees allow specialization to take place, thus increasing efficiency. As for single-employee businesses, these also enjoy a decent performance due to the fact that their operating expenses are very limited, of which wages form the biggest portion.

Size (# of workers)	
1	5.24
2-4	4.78
5-9	5.40
10-49	6.94

III.17.2 Date of establishment

The indicator we have developed does not show any performance trend related to the date of establishment of the enterprise. This means that the age and experience of the firm itself are independent of the level of performance, which is in fact closely related to the age and education of the entrepreneur, as will be revealed later.

Date of establishment	
<1979	4.68
1980-1984	5.43
1985-1989	5.52
1990-1994	4.73
1995-1999	5.43
2000-2004	4.84

III.17.3 Clusters

Clusters in general provide an environment that enhances efficiency of firms through existence of different production complementary entities. In Lebanon, however, the norm is reversed; MSEs that

do not belong to a cluster achieve better performance levels. This is due to the nature of clusters in Lebanon, which consist of nothing but firms in the same, or similar, line of business. As a result, a competitive environment arises, restricting profits, and thus performance.

Belong to a cluster		Presence in a cluster is useful	
No	5.14	No	5.18
Yes	4.88	Yes	4.68

III.17.4 Management Organization

Enterprises that are organized in departments and those having regular accounting records show better performance than others. This is due to the fact that the existence of departments enhances division of labor, and thus overlapping of tasks. Besides, orderly book-keeping controls resource misallocation, and thus improves efficiency.

Enterprise: organised in departments		Enterprise: regular accounting records	
No	5.04	No	4.68
Yes	5.12	Yes	5.55

III.17.5 Gender & Marital Status

The indicators have shown that male entrepreneurs do better than female ones. Many factors could be used to explain this result, one of which is the nature of sectors occupied by men and/or women. In general, men work in sectors that enjoy high added values and profits, such as construction. Besides, the fact that men do not hold household tasks and responsibilities as much as women, leaves them with more time to dedicate to work. This means that men can, by far, afford to work for long hours, which in turn boosts a firm's performance. In the same manner, marital status also affects performance of a firm, where single employees contribute to their work more positively than married ones.

Marital status		Gender	
Never married	5.39	Male	5.06
Married	4.97	Female	4.89

III.17.6 Age & Education of the Entrepreneur

When looking at performance from the age of the entrepreneur point of view, we notice that at first it rises then falls, with the peak being at the age of 30 to 39.

As for the educational attainment, performance rises as the years of formal education of the entrepreneur rise. Of course, the highest performance is recorded in firms with entrepreneurs who have attained at least a bachelor's degree. Formal vocational or technical training for entrepreneurs in fact negatively affect the performance of firms, since these programs are general and thus do not focus on issues related to the firm's field of specialization.

On the contrary, entrepreneurs who have training apprenticeship experience do benefit their firms, which record better performance levels. This is true because this type of training is specialized and thus can be particularly relevant to the field of the firm.

Age of the entrepreneur		Years of education	
<30	5.21	5 years or less	4.94
30-39	5.29	6 to 9 years	4.67
40-49	5.00	10 to 12 years	5.02
50-59	4.86	13 to 16 years	5.91
60+	4.66	17 years and more	6.00

Formal technical/vocational education		Training apprenticeship experience	
No	5.06	4.96	
Yes	4.96	5.39	

III.17.7 Formal vs. Informal

Registration, social insurance scheme, official business license, and tax commitment, are all criteria for being part of the formal economy. As it is known that formal enterprises perform significantly better than informal ones, our results come to support this view. This finding is closely related to the fact that formal MSEs are closely related to sustainability and credibility, which enhances their status and ensures better prospect.

Enterprise	No	Yes	Not Required
Registered at opening date	4.95	5.43	4.55
Acquired official business license at opening date	5.06	5.25	4.35
Registered with tax department at opening time	4.96	5.57	4.58
Joined social insurance scheme at opening date	4.90	6.30	5.01

Enterprise	No	Yes	Not Required
Currently registered (industrial or commercial)	4.85	5.38	4.57
Currently acquired an official business licence	5.19	5.15	3.91
Currently registered at tax department	4.93	5.39	4.60
Currently joined the social insurance scheme	4.89	6.38	5.02

III.17.8 Technology Used

MSEs that employ up-to-date technologies perform considerably better than those who use traditional ones. Latest technologies play a very important role, mainly in saving time and thus performing tasks more efficiently.

Technology used		Use latest technology	
traditional	4.91	No	5.01
modern	5.22	Yes	5.42
up-to-date	5.43		

III.17.9 Main Customers & Scope of Market

The type of the clientele contributes to the level of performance of a firm. According to the indicators calculated, the performance of firms with foreign customers is by far the most superior. The indicators also show that the least performing businesses are those whose main clients are public enterprises and domestic NGOs. This can be explained by the fact that the scope of work for foreign clients is usually broad.

It is thus reasonable to anticipate that MSEs with an international scope of market perform best. This inference is in fact supported by an indicator separate from that of the main customers; it shows that international-scope firms perform better than those with local, regional and national scopes.

Main customers		Scope of market	
Households	5.00	Local	5.05
Government	5.06	Regional	4.86
Public enterprise	4.70	National	5.20
Domestic NGO	4.74	International	5.30
Foreign NGO	7.08		
Cooperative	5.96		
Home based workers	5.26		
Private sector (<10 empl)	5.07		
Private sector (<50 empl)	5.86		
Private sector (>50 empl)	4.72		
Foreign firms	7.50		

III.17.10 Access to Infrastructure

Infrastructure taken into consideration includes the following services: water, electricity, telephone, sewage, roads, and transportation for workers. Indicators pertaining to firms with access to all of these services, except for electricity, show high performance levels. The result concerning access to electricity infrastructure is pertinent to Lebanon in particular, where it is firms with private electricity connections (individual generators) that enjoy decent performance due to lower electricity costs. Of course, this unveils how expensive and inefficient the public utility of electricity in Lebanon is.

Infrastructure	Does not exist	Exists
Water	4.73	5.26
Electricity	5.18	5.02
Telephone	4.78	5.39
Sewage System	4.67	5.37
Roads	4.71	5.22
transportation for workers	4.99	5.25

III.17.11 Working Hours per Week

Productivity of workers rises at first to reach a peak, after which it starts to fall. This phenomenon is only normal; it supports the theory of labour productivity in economics. According to the performance indicators, the peak is at 48 working hours per week, which means that beyond this point, employees tend to work more inefficiently due to many reasons, exhaustion being one. This trend remains valid until working hours per week reach 72, after which productivity boosts again. In this case, a double-shift system is installed, representing nearly the same productivity, and thus performance, as that of a single-shift one.

Working hours/week	
48h and less	5.29
48h-60h	4.89
60h-72h	4.75
more than 72h	5.28

III.17.12 Geographic Location

The geographic location also affects the performance of enterprises. Our indicator shows that MSEs in Beirut perform best and those in Bekaa record the least performance, compared to other Governorates. This is only logical due to the urban vs. rural nature of the locations mentioned.

Location	
Beirut	6.45
Mount Lebanon	5.36
Bekaa	4.04
North	4.88
South	5.17

IV. Recommendations

The importance of the contribution of the private sector to the Lebanese economy cannot be highlighted more. Similarly, the importance of micro and small enterprises has always characterized the economy of the country, a fact further confirmed in the current research. This indicates the importance of supporting micro and small enterprises as one of the pillars for any long-term development strategy in the country.

This is especially pertinent in terms of pro-poor development strategies, where these enterprises are mostly owned and operated by poorer groups of the society. Such enterprises are easy to support, they require low capital per job created, they have the ability to generate a number of job opportunities to absorb the growing labor force, and they target women, and those who have no other source of income. However, these enterprises are vulnerable to shocks, they lack access to financial assets and they are not covered by social security schemes.

The recommendations of this study are divided into the following five categories. It should be noted however that the effectiveness of these recommendations is conditional to pursuing macroeconomic reforms pertaining to infrastructural, fiscal, sectoral, and employment policies.

1. Providing and supporting an enabling policy environment for MSEs

- One of the more important conclusions of the study is the need for the inclusion of *purposeful enterprise development strategies*, guided by an overall vision of development.
- An *enabling legislative framework* should be developed to facilitate and encourage engagement in the formal, micro, and small scale enterprises. This will ensure their proper development, increased competitiveness, efficiency and sustainability.
- This also needs providing *incentives for enterprise establishment and growth*, including licensing/registration procedures, regulating taxation, tax administration, customs fees, and costs of essential services in a way that would assist these MSEs. These incentives concern accessibility to imports and domestic raw material.
- There is a need to *strengthen legislation related to membership of MSEs in professional organizations* in order to tap into resources and partnerships.

- One could look into *focusing assistance on promising sub-sectors which have the opportunity to grow* and provide the highest added value in income and employment generation, as well as provide the highest performance. This could be a pilot in which overall assistance to one of the sub-sectors is coupled with a basket of assistance program interventions (access to financial services, technical assistance, know-how, etc.). The results could then be evaluated for impact.
- In addition to state agencies, other actors, especially local government; private sector and civil society organizations, have a role in promoting competitiveness in this sector. The role of each should be elaborated based on their comparative advantage and added-value.
- *There will continue to be a need for a structure to provide problem-solving quick fixes on a demand basis for MSEs.* This could be piloted by governmental and non-governmental organizations as the need arises. Part of the services offered by such organizations would be those of a *referral* nature to other institutions that could provide the needed service.
- There is a need to increase the *access of MSEs to financial resources*, both for the initial start-up of businesses and for expansion. This access is almost non-existent at the time being and entrepreneurs are well aware of opportunities lost due to this constraint. Models to ensure increased access to small credit, both through formal banking or through non-governmental organizations, are well established globally and these models could be adapted to the country context easily. Facilities for accessing short, medium, and long term credit should be provided and improved for MSEs.

2. Developing and enhancing training schemes for MSEs

- There is a need to *review the existing vocational and technical education courses* to assess how they could be adapted to assist the MSE sector and its institutions. This is a policy issue that needs to be finalized in conjunction with other operational issues to extend access to formal and informal training and education opportunities.
- *Access to formal and informal education and training* needs to be enhanced. Based on the findings of the survey, education and formal training enhances the development of micro and small enterprises and improves their performance. It is, thus, important to concentrate more on the sustained investment in human resources and technical skills development if entrepreneurs are to lead effective sustained and profitable enterprises.
- *Formal and informal training should be combined with business counseling.* A wide range of networks can be used for this purpose, including central and local government agencies, non-governmental organizations, and others, where the training provider integrates training, coaching and consultancy in one single package.
- *It is recommended that training and counseling be sensitized to different factors.* Gender is one, the size of the MSE is another, and the type of business might be a third. Some sectors and types of MSEs need to be provided with specialized tailor-made courses. In some MSEs, especially family-run businesses, it may be necessary to focus on other issues, such as those pertaining to growth, including decision making and internal organization.
- Since there is no one type of assistance that can effectively meet the needs of all different types of firms, *four categories of enterprises can be developed:* (a) newly-established enterprises, (b) established non-growing enterprises, (c) established slowly-growing enterprises, and (d) established enterprises that enjoy high growth rates. Each of these categories is to obtain individual assistance relevant to its status, based on its positioning according to the four categories.
- Besides addressing certain sectors and/or occupations, training providers should be encouraged to *provide owners and managers of MSEs* with specific training programs.
- *Training providers should improve their capability* in the areas concerning the needs of individual firms or coherent groupings through: (a) identifying these needs; and (b) involving owners and managers in the design of training courses.
- *The role of intermediaries should be strengthened*, where they should be able to provide (a) management services; (b) technical know-how; (c) forums for partnership and dialogue; (d) visibility and marketing and others.

- Effective quality assurance mechanisms and tools should be developed, based on clear standards and quality criteria, to allow both training providers and trainees to identify effective training courses and areas for improvement.

3. Providing MSEs with accessibility to technology and services

- *Access to technology* should be enhanced as it has been shown to enhance the performance of MSEs. It is recommended that this increased access be included in any development strategy targeting enterprises.
- *MSEs should have access to knowledge based networks.* Knowledge- intensity of production and the emergence of innovation-based solutions would enhance the performance and survival of firms.
- *Access to basic infrastructure and services* for the operation of MSEs should also be enhanced. The findings of the study highlighted the importance of the availability of an efficient infrastructure to ensure sustained enterprise growth and performance. MSEs located in Beirut or Mount Lebanon, with higher access to infrastructure and markets, perform better on all fronts: a higher value-added, higher present value, higher profits, etc.

4. Reinforcing linkage and interrelation between MSEs

- *There is a strong need to develop markets and marketing linkages between MSEs.* Both vertical and horizontal expansion should be considered and assistance in marketing interventions should be completed.
- *There is a need to establish a strong network among MSEs.* This should be “incubated” for the first phase of its establishment, but could then be “hosted” by the business/professional grouping or associations.
- Although international research indicates the importance of *clustering* for increased competitiveness and higher earnings and profit, the survey did not validate this hypothesis. Furthermore, the survey did not show that MSEs in clusters have better performance indicators. This may be due to the fact that most of these enterprises have not yet felt the effects of globalization, as well as the fact that clustering in the Lebanon context is merely a grouping of MSEs in one location.
- *An institutional body or a structured forum* should be created, where agencies providing support to MSEs can elaborate their common vision and concrete interests, share lessons learnt and disseminate the experience gained. It should include all stakeholders, including central and local governments, non-governmental organizations, donors, associations, etc.

5. Other recommendations

- *Special attention should be given to female-run enterprises* in order for them to develop and provide a leeway for persons out of poverty. The issue of gender differentials is an interesting one. The survey showed that women entrepreneurs resort to the establishment of micro and small enterprises as an alternative out of their poverty. Women earn less; their enterprises have less access to earnings and profit; perform less; have lower added-value; and have less access to assets and resources.

Based on the survey findings, the *size of the enterprise* is important for increased competitiveness and sustainability, as well as better performance. Size was found to significantly raise profit, present value, value-added, increase performance, as well as assist enterprises to graduate into bigger categories, improve working conditions, and raise family/household incomes. The same holds true for the organizational management of enterprises.