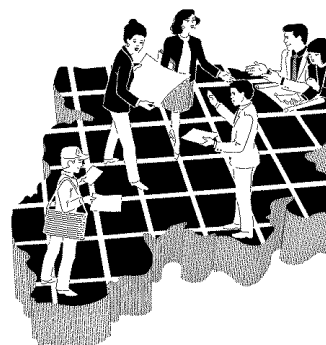


ЗАРУБЕЖНЫЙ ОПЫТ



HOSSEIN KARAKI

SMALL BUSINESS IN LEBANON: FINANCIAL ASPECTS

The main objective of the article is to describe the context of the small Lebanese companies, their characteristics as well as their constraints which jeopardize their evolution. It places particular emphasis on the financial problems that arise in terms of business loans and drive businesses to search for new sources of financing. The article is divided into three parts. The first part presents definitions and characteristics of small businesses in Lebanon. The second section analyzes small businesses in the Lebanese context. The third section discusses the main impediments that block the development of SMEs in Lebanon, while focusing on financing issues.

Keywords: small and medium-sized business; microcredits; investment financing.

UDC 336.63: 336.648

Introduction. Small and medium-sized enterprises (SMEs) are an essential source of economic growth, dynamism and flexibility in both advanced industrial countries and emerging and developing economies. In Lebanon, more than 95 % of enterprises are SMEs. Their importance for development is crucial for the revival of the economy and employment in the country. The importance of SMEs stems from the fact that they possess a number of irreplaceable assets. This type of enterprise is not very capitalist, but its contribution to employment is interesting, especially in a country like Lebanon, where the problem of unemployment tends to increase each year, and makes it possible to decentralize investments and mobilize private savings.

As a result, in order to promote the development of SMEs wherever they exist, the government has endeavored to ensure that they have a macroeconomic, legal, regulatory and fiscal environment that is transparent, stable and predictable, and that they benefit from strengthening the national financial system through the modernization of the financial sector and the provision of technical assistance to the banking sector in order to improve investment in SMEs.

Lebanon did not escape this wave, and several programs and structures were created in relation to this sector.

Financing is the operation that allows SMEs to evolve and survive, and ensures the development of jobs and the realization of new ideas. But access to

Hossein KARAKI (Hossein.karaki@hotmail.com), graduate student of department of economic and management Belarus State Economic University (Minsk, Belarus).

finance for SMEs is not always easy. And with the introduction of microfinance in the world of SME finance, the choice of financing tools remains wider. From this point of view, the following problem arises:

What is the state of SME financing in Lebanon? And how do Lebanese entrepreneurs finance their SMEs? To answer these questions, we will ask intermediate questions: What is a Lebanese SME? And what are its characteristics? What are the means available to entrepreneurs when financing their SMEs? And why is access to finance difficult?

Methodology. We have chosen to deal with the problem of SME financing in Lebanon, in order to know the situation in which small businesses are located. Our interest in microfinance has been driven by its growing importance in recent years. The importance of SME financing to researchers and practitioners continues to grow, given the importance of the SME sector and its impact on economic growth. The same is true of Micro Finance Institutions (MFIs), which increasingly occupy a place in the international financial system.

Through our research we will try to: 1) better understand the concept of SMEs, know their characteristics, their importance, their assets and their problems; 2) reveal the origin of the problem of financing SMEs, and the means of financing available; 3) show the role of MFIs and the financing instruments they offer to SMEs; 4) emphasize the importance of the MFI in financing SMEs, if it exists.

Section I. Definitions, characteristics and rationale for small businesses

1.1. Small Business and their organizational characteristics. Small and medium-sized enterprises (SMEs) are a very heterogeneous group. They are present in a wide range of activities*. They belong to owners, they operate in very different markets, enjoy the level of skills of their employees, their technical expertise and their definite call for development, and come either from the formal economy or from the parallel economy. The statistical definition of SMEs varies by countries and generally takes into account the number of employees, the amount of turnover and / or the value of the assets.

It is clear that there are other characteristics that make it easier to grasp the reality of SMEs. These include: 1) proximity between a boss and employees; 2) the uniqueness of management.

Most SMEs have the legal status of a limited liability company (LLC) or a public limited company (PLC). These PLCs are actually family businesses disguised as mock capital companies.

The Global Report [1] presents main common characteristics of SMEs as follows: 1) a small entrepreneur works and produces in general for the local market; 2) small businesses are run solely by the owners themselves and by members of their family; 3) women represent a relatively high percentage of owners or workers in the SME sector; 4) personal savings or family money is the essential source of capital for the creation of small businesses; 5) access to official credit channels and other forms of support is minimal or non-existent; 6) micro-enterprises and small enterprises have incomplete and inadequate accounts; 7) small businesses are generally not officially registered and rarely pay regular taxes; 8) employees often work too long hours and in many cases have to accept substandard working conditions.

These characteristics cover several aspects [2] of the world of SMEs and make it possible to better grasp their particularities in relation to large companies.

*In the SME category, there is a small artisan who manufactures farm tools sold in the village market alone, a café around the corner, an Internet cafe of a small town, but there are also small engineering or construction companies, software vendors marketing their products abroad and medium-sized companies manufacturing parts sold domestically and abroad to international car manufacturers.

The economic logic tends to advocate the large size that makes it possible to take advantage of economies of scale and consequently the effect of experience. Indeed, the achievement of economies of scale result in producing larger quantity using the same production capacity through the concentration on the volume and standardization of production procedures. As a result, a SME will exist because of the need to be flexible and close to its market. It is added that a large company will favor the existence of a network of small businesses that will be subcontractors. Lastly, the desire of the manager to limit the growth of business in order not to lose control of it.

Section II. Importance of SMEs in the Lebanese economy

Referring to the OECD report [3] in 2002, till that of the Ministry of Economy in 2014 [4], and that of the Chamber of Commerce study (September 2018) [5], private small and medium-sized enterprises (SMEs), whose overall number exceeds 95 %, excluding the agricultural sector, are still an essential source of employment and generate considerable revenue for export in OECD countries as well as in transition and developing countries. Important actors in the economy in terms of innovation and job creation could be even more if they find conditions for their development and become world leaders.

The register of commerce gives information on the number of small and medium enterprises in Lebanon. In addition, the classification of these data does not provide information on the exact number of small and medium-sized enterprises. From their creation, SMEs face a difficult business environment, recognized Najib Choucair, director of the banking department within the Central Bank of Lebanon. Lebanon was 126th out of 190 countries in the latest World Bank Doing Business ranking (Fig. 1).

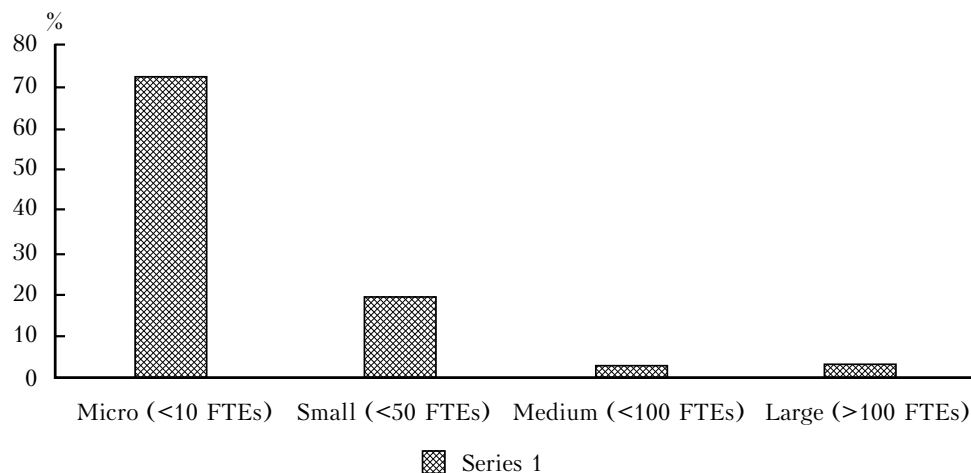


Fig. 1. Micro enterprises are a majority [5]

II.1. Evolution and characteristics of SMEs in Lebanon according to some criteria. The Lebanese market does not provide a precise definition of SMEs. A Lebanese SME has between 15 and 60 employees. For Morel (2008), Lebanon is a fabric of SMEs. This fact shows that they play a driving role in economic development. According to Badreddine [6], the main characteristics of Lebanese SMEs can be summed up as follows: 1) More than 74 % of Lebanese SMEs were founded by their current owners. The rest are family businesses founded and historically managed by their founders from generation to generation; 2) Half of the industrial enterprises specialize in the production of consumer goods. 30 % of the total number of these companies produce intermediate goods, the rest manufacture machinery and industrial equipment.

II.2. The distribution of SMEs in Lebanon. *Sectorial and regional distribution of SMEs.* A study done by the Ministry of Economy and Trade (2014) allows to analyze the sectorial and regional distribution of SMEs. Indeed, they represent almost 57 % of the total as shown in the figure below (Fig. 2). This result reflects the commercial nature of the Lebanese economy. SMEs whose activities are oriented towards the sales of real estate, renting and business companies occupy the second position – 14 %.

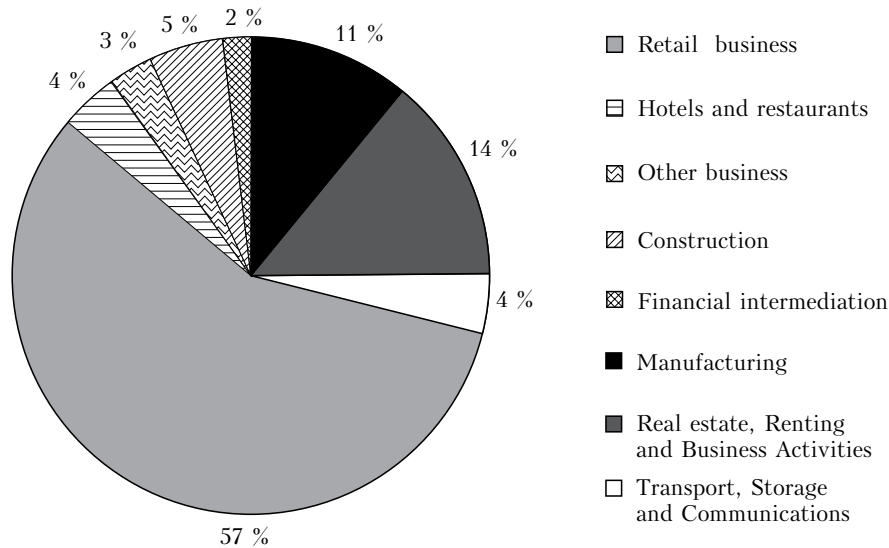


Fig. 2. Breakdown of Lebanese SMEs by sector (in percentage) [4]

Regional distribution of Lebanese SMEs. By referring to the figure below, we notice that the regional distribution of Lebanese SMEs shows a concentration of SME activities in all sectors (Fig. 3). SMEs target markets with affordable operational costs and accomplish their mission where infrastructure does not allow large businesses to exist. In accordance with «Lebanon SME Strategy: A Roadmap to 2020» which was developed by the Ministry of Economy and Trade (2014), the highest number of SMEs is in Mount Lebanon (49 %), while the other percentages vary between regions (Beirut 31 %). They thus fulfill a complementary role allowing a better exploitation of the resources of the country and adapt with its infrastructure centered in the capital.

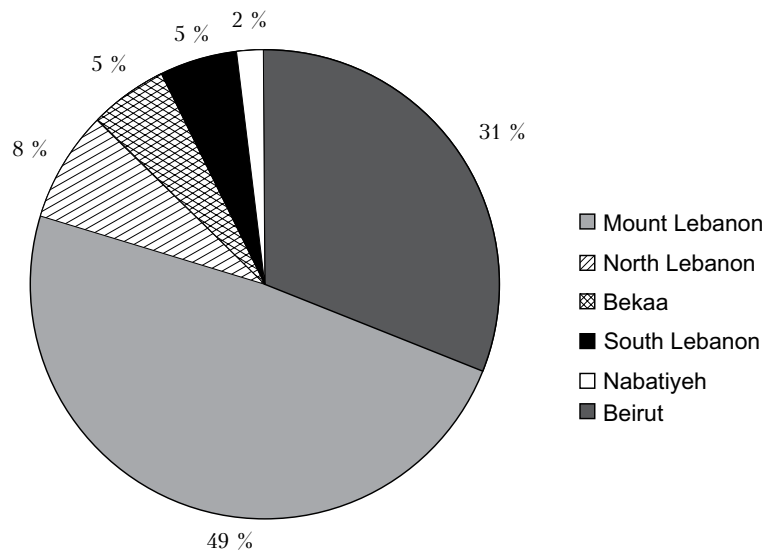


Fig. 3. Regional distribution of SMEs (In %, 2014) [4]

Distribution of SMEs according to their legal nature. The vast majority of Lebanese SMEs are sole proprietorships owned by natural persons. This fact reflects the importance of initiative and personal effort in the evolution of these companies which is shown in the figure below (Fig. 4). For example, the percentage of individual proprietorships reached 47 %, in comparison with other companies like LLC (12,4 %), JSC (4 %), and other types (29,3 %), according to the Ministry of Economy and Trade.

This factor can also be interpreted as a barrier to this development, which depends on the initiative and the personal responsibility of the owners.

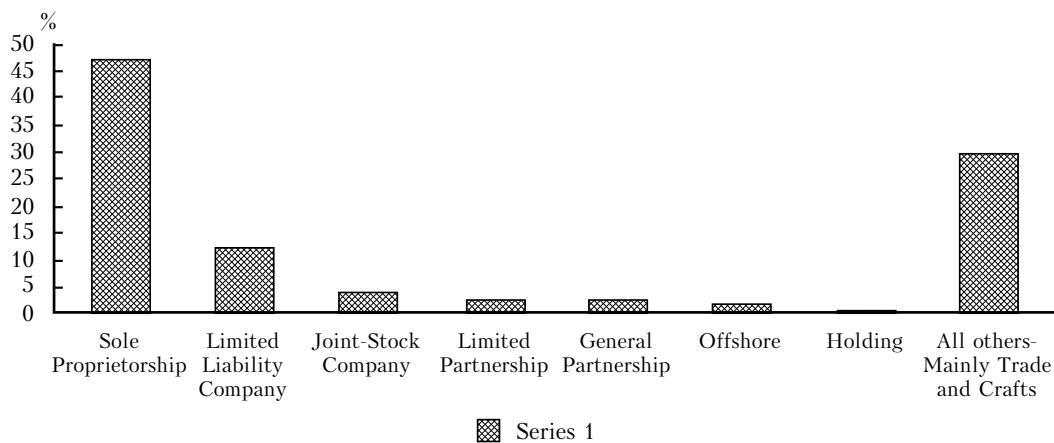


Fig. 4. Distribution of SMEs in Lebanon by legal nature (in %, 2014) [4]

II.3. Contribution of SMEs to employment in Lebanon. Based on the figure below, we conclude that SME staff feel more motivated than that in large companies (Fig. 5). This motivation comes from their active participation in the sustainability of the firm and their involvement in decision-making. From the study of the Ministry of Economy, it turns out that SMEs, with the number of employees between 101 and 200, hire the most. On the other hand, for SMEs, with between 1 and 10 employees, a hiring rate of 38 % and 45 %, respectively, is noted for those whose activity is in services and trade.

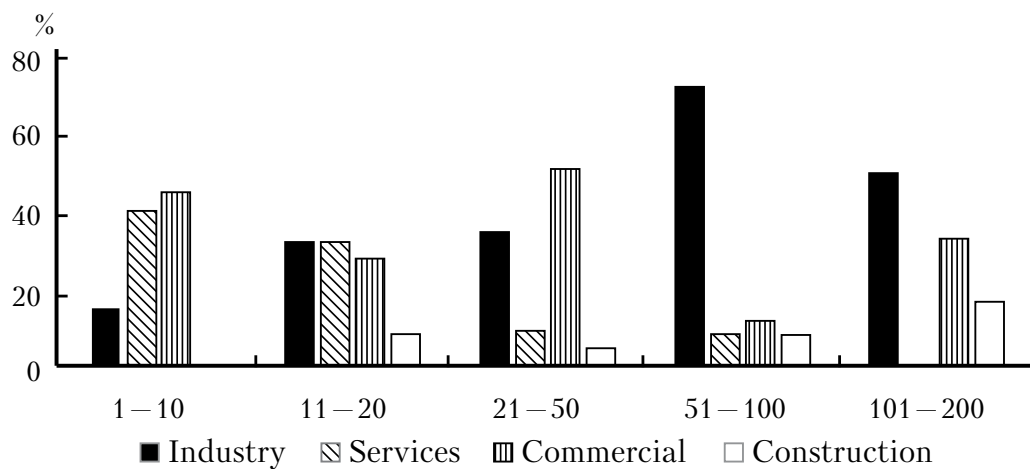


Fig. 5. Sectorial breakdown of employees and size of company [6]

This study shows that 60 % of owners of SMEs operating on the Lebanese market find it difficult to hire qualified personnel. Most SMEs, however, have lost qualified staff to large, competitive companies that can offer more attractive salary opportunities.

Access to complicated financing. Access to finance for a SME seeking to develop also remains complicated. SMEs suffer from being excluded from public procurement, while the stakes are high: expenditure on the purchase of goods and services and on public works orders made by central administrations and the Development and Reconstruction Council account for 4 % of Gross Domestic Product (GDP). On the side of the Ministry of Economy, emphasis is also placed on the importance of collaboration with the World Bank since 2015 to identify the needs of SMEs and entrepreneurs in Lebanon by 2020. According to Alia Abbas, «it is important that the public and private sectors support efficient SMEs which can be competitive at the national level in order to create jobs». The ministry is notably working on simplifying procedures and objectives, to reduce the time required to register a business, ensure long-term sustainability of businesses, and transform SMEs into productive, competitive and global players. In addition, «SME Strategy: A Roadmap to 2020» also handles six thrusts: evolving business leaders; facilitating the «right» funding; improving access to markets; enhancing capabilities and innovation capacity; developing a conducive business environment and national environment; ensuring coherence and effective coordination.

Section III. The challenges and constraints of SME development in Lebanon

SMEs generate jobs, income and export earnings. However, in order to harness the potential for development and poverty reduction in collaboration with governments, they face many challenges that can jeopardize their development. Lebanese SMEs face major difficulties in seeking to strengthen their human and institutional capacities.

III.1. SME challenges according to the Ministry of Economy (2013).

The main challenges that were analyzed in the Ministry of Economy report (2013) [7] can be summarized as follows: 1) promote the expansion of the private sector / SMEs; 2) help SMEs to become more competitive and productive; 3) enable at least some of the nationally competitive SMEs to achieve a level of competitiveness.

III.2. Economic constraints. We can distinguish two broad categories of constraints with several variables that influence the activities of SMEs.

III.2.1. Macroeconomic constraints. SMEs need a macro-economic policy with stable orientations and they must be able to benefit from overall conditions that stimulate entrepreneurship, innovation and competitiveness. In Lebanon, governments need to strengthen the rule of law, fight bureaucracy, invest in infrastructure, and combat corruption:

a. Inadequacy of demand. This factor is mainly due to poverty and unemployment as well as the economic recession. Lebanon is characterized by a relatively low GNP (Gross National Product) per capita as well as inequality in the distribution of national income. This situation is certainly unproductive in stimulating the performance of Lebanese small and medium-sized enterprises. Thus it is necessary to find new ways of financing that facilitate the operation of this type of companies by insisting on their role and their importance in the economy;

b. International Competition. This competition is mainly affected by fluctuations in the price of oil, and by the barriers on non-oil exports caused by the expansion of Asian markets, especially China;

c. Monetary Policy. The stabilization of the value of money and the control of inflation are the factors that reduce the risk of uncertainty for SMEs and encourage entrepreneurs to plan in a relatively stable environment. For Lebanon, monetary policy ensures coverage of the budget deficit.

III.2.2. Microeconomic constraints. Microeconomics also has constraints that can affect SMEs. Among these we quote:

a. Monopoly power. Lebanon is characterized by the exclusivity of the state as an infrastructure provider. SMEs cannot get these services at competitive prices. This monopoly power is also present in the private sector which reduces the competitive power of SMEs. They consider the inadequacy of infrastructure as a major obstacle to the prosperity of their activities and their proper evolution;

b. Distorted recruitment. The familiarity of Lebanese SMEs makes recruitment; a personalized affair and depends on a large number of factors related to politics. This fact undoubtedly has direct repercussions on the quality of the hiring as well as on the efficiency and permanence of the work. The absence of qualified labor is aggravated by the immigration of young people who are often graduates.

III.3. The legislative and administrative constraints. Lebanese SMEs find the institutional norms and legislation regulating their business inefficient, underdeveloped and even outdated. Among these we mention bureaucratic and very complicated administrative procedures. Thus registration, declarations and licenses are for SMEs additional constraints cumbersome and difficult to master.

III.4. Constraints related to political uncertainty and social instability. The growth of SMEs is today threatened, like the entire Lebanese economy, by the politico-security instability that undermines the country. Alain Hakim 2014 points out that SMEs, the mainstay of the economy in many countries, can make a significant contribution and provide up to 80 % of jobs and 70 % of gross domestic product (GDP).

III.5. Development constraints that face SMEs in Lebanon. This study consists of several issues defined as causes related to the problems of SMEs: 1) low productivity; 2) high export and distribution costs; 3) labor; 4) to the local market; 5) competition; 6) financing.

a. Problems related to low productivity. Productivity is a key factor in the growth of a company's business. The causes that explain low productivity are: 1) the high cost of production; 2) the high cost of labor; 3) incompetent management; 4) the state of the infrastructure; 5) the cost of raw materials.

b. Problems with high export and distribution costs. Distribution and export costs have a significant impact on the profitability of a SME. Any increase in these costs has an immediate impact on the position of the company. The causes that can explain these costs are numerous. Among them: 1) competition; 2) administrative and bureaucratic problems; 3) inadequacy of marketing policies; 4) neglect of technical standards; 5) weak measures of protection of local production [8]. In the Lebanese context, competition and administrative and bureaucratic aspects are the main causes of the increase in distribution and export costs.

c. Problems related to the workforce. Labor is a major factor of production. Among the factors that can affect the workforce: 1) cost of labor; 2) organization;

3) competence and qualification; 4) technical problems related to training; 5) inefficiency of apprenticeship training.

The main causes of labor problems in the Lebanese context are high costs and poor organization.

d. Local market problems. According to H. M. Köksal and T. Kettaneh's study, local market issues can degenerate into the following main causes: 1) deterioration of purchasing power; 2) abundance of imported products; 3) fraudulent imports; 4) inefficient distribution channels; 5) image of locally made products; (6) lack of communication and information [8].

e. Problems related to the competition. Competition conditions the market of a company that is crucial for its growth. The main causes of competition-related problems are: 1) high cost of media sources; 2) marketing policy; 3) differentiation policy; 4) high production cost; 5) market location and economic and security instability.

f. Problems related to SME financing. Capital is a major factor of production for a company. The factors that cause problems in terms of financing a SME are: 1) bank credit terms; 2) absence of other sources of funding; 3) lack of appropriate market studies; 4) Absence of an economic policy.

The conditions of bank loans explain 50 % of the problems posed in terms of financing in the Lebanese context. Indeed, many SMEs are not able to meet the conditions required by commercial banks. This result shows that SMEs are looking for an alternative solution to finance their activities. According to Badreddine's study, 55 % of SMEs solicited and obtained bank credits [6]. 25 % of these credits are short term and 13 % are long term. In addition, it has been shown that 7 % of SMEs obtained both short and long term credits, while 10% benefited from lines of credit and bank overdrafts. The same study mentions that 35 % of firms have never applied for a bank credit because of the severity of the credit conditions and above all because of the mortgage requirements and the interest rates which they consider high, and that 11 % of the credit files were refused.

Conclusion. It can be emphasized that SMEs are actors that play an important role in economic growth. In Lebanon, they dominate the industrial sector of the country. They are an essential source of employment and generate considerable revenue both locally and for export. However, they face economic, legal, administrative and financing difficulties that jeopardize their development in Lebanon. Therefore, the contribution of MFIs to SME financing is a legitimate issue that arises in the context of the search for capital to finance their investment projects.

Microfinance is a tool to fight poverty, and to ensure the sustainable development. These services are offered by microfinance institutions, which are created for a social purpose.

We can say that the Lebanese microfinance institutions operate with the least amount of resources but achieve a noticeable development. After studying the challenges that limit their development, we have noticed that the state can play a vital role in developing these institutions, in order to support the microfinance sector.

References

1. World Report // Industrial Investment Financing, United Nations Industrial Development Organization. – 1997.

-
2. *Julien, P. A.* La petite entreprise / P. A. Julien, M. Marchesnay. — Paris : Vuibert, 1988.
 3. Characteristics and Importance of SMEs [Electronic resource] // OECD Journal of Development, Chapter 1. — 2004/2. — N 5. — P. 37–46. — Mode of access: <https://www.oecd.org/industry/C-MIN-2017-8-EN.pdf>. — Date of access: 12.01.2020.
 4. Lebanon SMEs strategy: a roadmap to 2020 // Ministry of economy and trade. — 2014, December.
 5. USJ, Chamber of Commerce, and Industry [Electronic resource] // World Bank. — 2018, September. — Mode of access: [//labnehandfacts.com/media2](http://labnehandfacts.com/media2). — Date of access: 03.01.2020.
 6. *Badreddine, A.* Les effets de la multibancarisation sur le financement de PME par les banques / A. Badreddine. — Lyon, 2011.
 7. *El Khoury, Z.* Challenges facing the Lebanese SME Sector [Electronic resource] / Z. El Khoury. — 2013, May. — Mode of access: https://www.economy.gov.lb/public/uploads/files/8618_1911_5908.pdf. — Date of access: 03.01.2020.
 8. *Köksal, M. H.* Export problems experienced by high- and low-performing manufacturing companies: A comparative study / M. H. Köksal, T. Kettaneh // Asia Pacific Journal of Marketing and Logistics. — 2011. — Vol. 23. — N. 1. — P. 108–126.

ХУСЕЙН КАРАКИ

**МАЛЫЙ БИЗНЕС В ЛИВАНЕ:
ФИНАНСОВЫЕ АСПЕКТЫ**

Об авторе. *Хусейн Карак* (Hossein.karaki@hotmail.com), аспирант кафедры налогов и налогообложения Белорусского государственного экономического университета (г. Минск, Беларусь).

Резюме. Основная цель статьи — описать контекст небольших ливанских компаний, их характеристики, а также ограничения, которые ставят под угрозу их эволюцию. Особое внимание уделяется финансовым проблемам, возникающим с точки зрения коммерческих кредитов, которые побуждают их искать новые источники финансирования. Статья разделена на три части. В первой представлены определения и характеристики малых предприятий в Ливане. Во второй анализируется малый бизнес в ливанском контексте. В третьей рассматриваются основные препятствия, мешающие развитию МСП в Ливане, при этом основное внимание уделяется вопросам финансирования.

Ключевые слова: малый и средний бизнес; микрокредитование; финансирование инвестиций.

УДК 336.63: 336.648

*Статья поступила
в редакцию 13.02. 2020 г.*