

# SOCIAL ENTREPRENEURSHIP IN LEBANON

## A PROPOSED POLICY FRAMEWORK

**Social entrepreneurship is defined as any phenomenon through which a collective group of citizens strive to solve their community's social and/or environmental problems innovatively and sustainably by using local resources to create products or services that generate revenue, with profit reinvested to scale up the social impact.**

Social enterprises, as hybrid model of businesses with a purpose, "play an important role in driving sustainable and inclusive development, tackling inequality, and helping to address some of the biggest challenges targeted by the UN's Sustainable Development Goals".

International experience demonstrates that Social Entrepreneurship fosters partnership, collaboration and transparency and contributes to social, economic and environmental development at the local, regional and national levels.

### SOCIAL ENTREPRENEURSHIP BENEFITS

Addressing service delivery gaps across sectors. Social enterprises find solutions to social, environmental and economic needs that are often unattended to by public authorities

Bringing dynamism to local economies by developing new innovative products and services, tackling high risk markets and sectors that traditional public and private service providers find challenging

Allowing the provision of good quality and sustainable products and services at the local and national levels

Social enterprises ensure the sustainable utilization of local resources while being economically, socially and environmentally aware and responsible

Fostering resilience, improving employment opportunities and tackling poverty by encouraging citizens engagement in sustainable local and national socio-economic development initiatives

Improving social cohesion and mitigating social instability as social enterprises tap into inequalities, social exclusion and social needs of marginalized communities

Promoting inclusive governance and transparent practices across organizations as social enterprises aim to ensure participatory mechanisms for stakeholders and/or beneficiaries

Increasing collaboration and partnership between SEs and government as joint efforts aim to address priority needs and thus decrease public expenditures

Regaining citizens trust in public support services, institutions and governing system

A set of parameters were developed to better define social enterprises in the Lebanese context and these cover three dimensions:

### PARAMETERS THE SOCIAL OUTCOME

This dimension looks at the social impact and innovation of the social enterprise within the social, economic, environmental and cultural contexts of the country.

### THE GOVERNANCE

The governance dimension looks at the inclusiveness, transparency and participation mechanism within the social enterprise.

### THE SUSTAINABILITY

The third dimension looks at the business model of a social enterprise to ensure its financial sustainability as well as how it makes use of natural and environmental resources.

Lebanon has been going through a major economic, political, environmental and social crisis that is pushing the country into deep turmoil. Social challenges and inequalities are on the rise. Unemployment rate is increasing, poverty is spiking, and living standards are plummeting across Lebanon.

**27%\***

living in poverty on less than 8.5\$/day or 255\$/month.

\* With the current crisis, the World Bank predicts that it will reach 50% in 2020 (November 2019)

**25%\***

unemployed and 37% of youth (under 25) unemployed.

\* With the current crisis, unofficial sources claim the unemployment rate has reached 40% in 2020.

**88.37%**

pollution index, ranked 5th most polluted country

Social Entrepreneurship is a global model that has been adopted by many countries in the world to address social, economic and environmental challenges and to create jobs particularly for the most marginalized groups.

For example, there are around 70,000 social enterprises in the UK contributing USD 40 billion to the economy and employing nearly a million people.

	UK	ITALY	SOUTH KOREA	KENYA
%GDP	<b>3%</b> 3 times the size of the agricultural industry	<b>15%</b>	<b>3%</b>	<b>45%</b>
%EMPLOYMENT	<b>5%</b>	<b>10%</b>	<b>0.05%</b>	

There is no specific legal form for social enterprises in Lebanon and as such, social entrepreneurs are using existing legal forms to set up their entity either as an NGO, a commercial enterprise, or as a cooperative. Social enterprises in Lebanon tackle issues in various sectors including environment, health, agriculture, education and handicrafts.

In recent studies, the main activities of Social Enterprises in Italy and UK consisted of:

SE ACTIVITIES	UK 2017	ITALY 2011
SOCIAL CARE	<b>8%</b>	<b>27%</b>
ECONOMIC DEVELOPMENT	<b>21%</b>	<b>16%</b>
HEALTHCARE	<b>8%</b>	<b>12%</b>
EDUCATION & RESEARCH	<b>11%</b>	<b>19%</b>
CULTURE & LEISURE	<b>7%</b>	<b>19%</b>
ENVIRONMENT	<b>7%</b>	<b>2%</b>

Putting in place an enabling environment for social enterprises is critical if they are to fulfil their potential in addressing social, economic and environmental challenges, and promoting more cohesive and inclusive societies. In fact, an enabling regulatory environment would benefit social enterprises, the social entrepreneurship ecosystem, citizens, and government in general. It will help regulate the sector, create alignment around the requirements and practices, encourage successful growth and impact of SEs, limit any risk of abuse, and encourage efficient collaboration with the government.

This publication was funded by European Union, through the EU Regional Trust Fund in response to the Syrian crisis, the EU MADAD Fund. Its contents are the sole responsibility of BADAEL consortium and do not necessarily reflect the views of the European Union.

This policy brief was developed by Beyond Group following the facilitation of a consultative process that included social enterprises and ecosystem actors in Lebanon.



**THE PROPOSED LEGAL FRAMEWORK**

Based on a detailed analysis of the possible policy options for social entrepreneurship, a **Qualification Model** was found to be the best suited to social entrepreneurs in Lebanon. The proposed model would not exclude any of the already existing social enterprises operating in Lebanon under different legal models, nor does it require that they re-register under a different model. Indeed, the experience from already-existing SEs shows that they find themselves at very different levels. That is why a **three-layered matrix is suggested, taking into account nascent and aspiring social enterprises, as well as already-existing social enterprises that could perform better if they had more incentives to do so.**

The three-layered matrix defines social enterprises based on criteria set as per the definition presented in the previous section: Social Impact, Governance and Sustainability. It sets basic requirements for SEs (L1). If the social enterprise fulfills additional conditions, it then moves into the higher qualification levels: the improved SE (L2) or a more impactful SE (L3).

Accordingly, the three-layered matrix will give different incentives to each of the three levels of qualifications, and therefore incentivize social enterprises at these different levels, especially the more advanced one, to aim for higher levels of incentives, social impact and sustainability.

The requirements were inspired from the definition set previously as well as different models used globally. However, to better tailor the framework to the Lebanese context, weight has been added to the governance and sustainability dimensions through the inclusion of criteria reflecting the need for high levels of transparency and inclusion as well as high reliance on revenue generation through commercial activities to ensure sustainability and donor-independence.

Depending on the level of qualification of the SE, the level and type of incentives varies from ecosystem support to fiscal and networking incentives provided by the central government. An initial list of incentives has been developed and is still under assessment.

**QUALIFICATION COMPONENTS**

		L1	L2	L3
SOCIAL IMPACT	YEARS OF OPERATION	Operating for a minimum of 2 years		
	SOCIAL MISSION	Social Mission should be stated as the core objective within the bylaws		
	SOCIAL IMPACT MEASUREMENT	Social Impact Measurement & Reporting (within 2 years of qualification)		
	EMPLOYMENT OF DISADVANTAGED PEOPLE	5%	Employing 5% of disadvantaged people	20% Employing 20% of disadvantaged people
GOVERNANCE	INCLUSION	Signed and published non-discriminatory statement related to nationality, race, color, religion, gender, gender expression, age, disability, marital status, socio-economic status, etc.		
	DECISION MAKING			Mechanisms for participation of stakeholders and users in decision making in bylaws. [Commercial] Restrictions on majority ruling in decisions related to the core elements of the SE
	OWNERSHIP	Majority of shares not owned by existing commercial business		
	FINANCIAL REPORTING	[NGOs and Coops] Adopt the financial reporting mechanisms set for commercial businesses - Common financial reporting templates		
	ONLINE TRANSPARENCY	Publish Financial and Social Impact reports		
SUSTAINABILITY	FINANCIAL SELF-SUFFICIENCY	20% At least 20% of costs recovered through commercial activities	40% At least 40% of costs recovered through commercial activities	60% At least 60% of costs recovered through commercial activities
	PROFIT DISTRIBUTION	Maximum 50% of profit distributed 50%	Maximum 30% of profit distributed 30%	Maximum 15% of profit distributed 15%

**INCENTIVES**

ECOSYSTEM	<ul style="list-style-type: none"> <li>● Access to administrative support services from SE ecosystem</li> <li>● Access to marketing channels through ecosystem</li> <li>● Access to mentoring &amp; coaching support through SE ecosystem</li> <li>● Access to financing tools through SE ecosystem</li> <li>● Access to a platform for SEs for networking &amp; access to markets</li> </ul>	<ul style="list-style-type: none"> <li>● Access to international markets and partnerships</li> </ul>	<ul style="list-style-type: none"> <li>● Model Social Enterprise Award</li> </ul>
	PUBLIC	<ul style="list-style-type: none"> <li>● Reduced Incorporation cost</li> <li>● Access to financial tools through Central Bank and others</li> <li>● Tax exemption on grants</li> </ul>	<ul style="list-style-type: none"> <li>● Tax Incentives - No tax on profit if all is reinvested</li> <li>● Tax incentives for Equity Investors [up to a ceiling]</li> <li>● Access to international markets and partnerships</li> <li>● Exemption on the 7.5% tax for freelancers</li> <li>● National Social Security Fund (NSSF) fees subsidies</li> </ul>