

SOCIAL

ENTREPRENEURSHIP

IN LEBANON

A PROPOSED POLICY FRAMEWORK FOR
ECONOMIC INCLUSION & SOCIAL SOLIDARITY

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(A) A MODEL FOR SOCIO-ECONOMIC DEVELOPMENT

Lebanon has been going through a major economic, political, environmental and social crisis that was exacerbated by the Covid19 pandemic, and is pushing the country into deep turmoil. The culmination of years of mismanagement and lack of effective policies, paired with local currency devaluation and strict confinement measures, has resulted in the rise of social challenges and inequalities, the increase of unemployment, the spiking of poverty and the plummeting of living standards across Lebanon.

While the Lebanese Government has been attempting to address social, economic, and environmental issues through multiple policy initiatives, including the Capital Investment Program, the Lebanon Economic Vision, the SME Strategy, and the SDGs strategy with the aim of **creating jobs, boosting the economy and maintaining social stability**, however, **social challenges and inequalities are still on the rise particularly in the marginalized areas.**

27%*

living in poverty on less than 8.5\$/day or 255\$/month²

* 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) unemployed³

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

88.37%

pollution index, ranked 5th most polluted country⁴

There is a need to parallel governmental efforts with innovative solutions for social, economic and environmental problems, and to do that, **Social Entrepreneurship** presents itself as one core strategy.

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.**⁵

In the UK for example, there are around 70,000 social enterprises contributing USD 40 billion to the economy and employing nearly a million people.⁶ In Italy, the estimated number of social enterprises in 2017 amounted to over 102,000 accounting for almost 900,000 paid workers and an annual turnover of 42,700 million EUR.⁷

	% GDP	% UNEMPLOYMENT
UK	3% <small>(3 times the size of the agricultural industry)</small>	5%
ITALY	15%	10%
SOUTH KOREA	3%	0.05%
KENYA	45%	
FRANCE	10%	
SPAIN		20%

2 World Bank/ Ministry of Social Affairs, 2011

3 Ministry of Labor, 2017

4 Numbeo, 2020

5 European Commission. 2014. Conference: Social Entrepreneurs. The British Council. 2015. The Scale of Social Enterprises. Social Enterprise UK. 2015. Think Global Trade Social. GSG. 2014. Impact Investment Report.

6 The Future of Business: State of Social Enterprise Survey 2017

7 European Commission (2020) Social enterprises and their ecosystems in Europe. Updated country report: Italy. Author: Carlo Borzaga. Luxembourg: Publications Office of the European Union.

Social Entrepreneurship Benefits

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”.⁸

International experience demonstrated that Social Entrepreneurship contributed in:

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

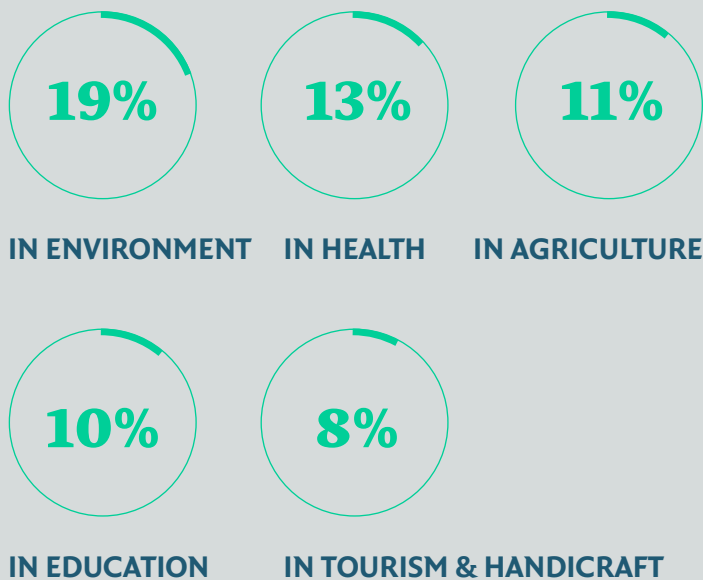
⁸ Littlewood, D. and Holt, D. 2015. How social enterprises can contribute to the Sustainable Development Goals (SDGs) – A conceptual framework. Contemporary Issues in Entrepreneurship Research, 8, 33 – 46.

The current context in Lebanon could be a driver to incentivize youth, women and citizens to create opportunities, provide jobs while assisting government in solving social problems, reducing spending and improving local services in sectors such as education, health, poverty, waste, water...⁹

Social entrepreneurship is a new concept for Lebanon, but it is an old phenomenon in its communities. Culturally, citizens in localities, both in urban and rural contexts, have created collaborative initiatives for local solidarity, aiming to serve their community through solving its social, economic and political problems, employing local citizens and using local resources.

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 initiatives, **Social Startups** were distributed as follows:



In recent studies, the main activities of Social Enterprises in Italy¹⁰ and UK¹¹ consisted of:

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

For the last decade, Beyond Group, along with several international and local actors, have supported the creation and growth of around 300 social enterprises. Moreover, several initiatives have been launched to support the development of a social entrepreneurship ecosystem and international actors have expressed interest to provide financing for social enterprise development in Lebanon, should a legal framework be put in place.

As such, social enterprises represent a model to innovate solutions for existing needs, to foster collaboration, inclusive growth and job creation, and to contribute to social, economic and environmental development at the local, regional and national levels.

⁹ UNDP and MoSA. 2007. Poverty, Growth and Income Distribution in Lebanon. World Inequality Database. 2018. Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon 2005-2014.

¹⁰ Borzaga, C., Poledrini, S. & Galera, G. (2017), Social Enterprise in Italy: Typology, Diffusion and Characteristics, Euricse Working Papers, 96 | 17.
¹¹ The Future of Business: State of Social Enterprise Survey 2017

(B) A THREE DIMENSIONAL DEFINITION

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.**

To further detail the above-mentioned definition, a set of parameters were developed to better define social enterprises in the Lebanese context and these cover three dimensions:

THE SOCIAL OUTCOME	THE GOVERNANCE STRUCTURE	THE SUSTAINABILITY
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 dimension looks at the inclusiveness, transparency and participation mechanism within the social enterprise.	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.
PARAMETER 1: Social Impact Measurement PARAMETER 2: Social Innovation	PARAMETER 3: Inclusive Internal Structure PARAMETER 4: Stakeholder Participation Mechanisms	PARAMETER 5: Financial Sustainability PARAMETER 6: Resource Use and Environmental Standards

These three dimensions are commonly found in definitions of social entrepreneurship across different countries.

However, the Lebanese context presents more challenging elements compared to most countries that have developed and/or passed a framework for social entrepreneurship. That is why, it is important that any definition of social entrepreneurship in Lebanon puts **citizens at the center of social, economic and environmental development through scalable solutions, increased strength of the state and higher trust between relevant stakeholders.**

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 and citizens in general.**

Among the benefits of a regulatory framework, the following have been highlighted:

FOR SOCIAL ENTREPRENEURS

Provide incentives, including fiscal relief, to encourage their growth and impact.

Create a platform that would encourage collaboration and complementarity.

Regulate the sector to provide successful models and limit any risk of abuse.

FOR THE SOCIAL ENTREPRENEURSHIP ECOSYSTEM

Create alignment around Social Entrepreneurship requirements across interventions and programs.

Inform the design of tailored support services that optimize the social impact and sustainability of social enterprises.

Incentivize ecosystem actors to focus on maximizing social enterprises' impact.

FOR CITIZENS

Allow the provision of good quality services at the local and national levels.

Encourage citizen engagement in sustainable local and national socio-economic development initiatives.

Increase trust in the potential of social enterprises in solving problems while preserving local resources.

FOR GOVERNMENT

Boost local economies, improve employment opportunities and tackle poverty.

Increase collaboration and partnership between SEs and government, and address service delivery gaps across sectors.

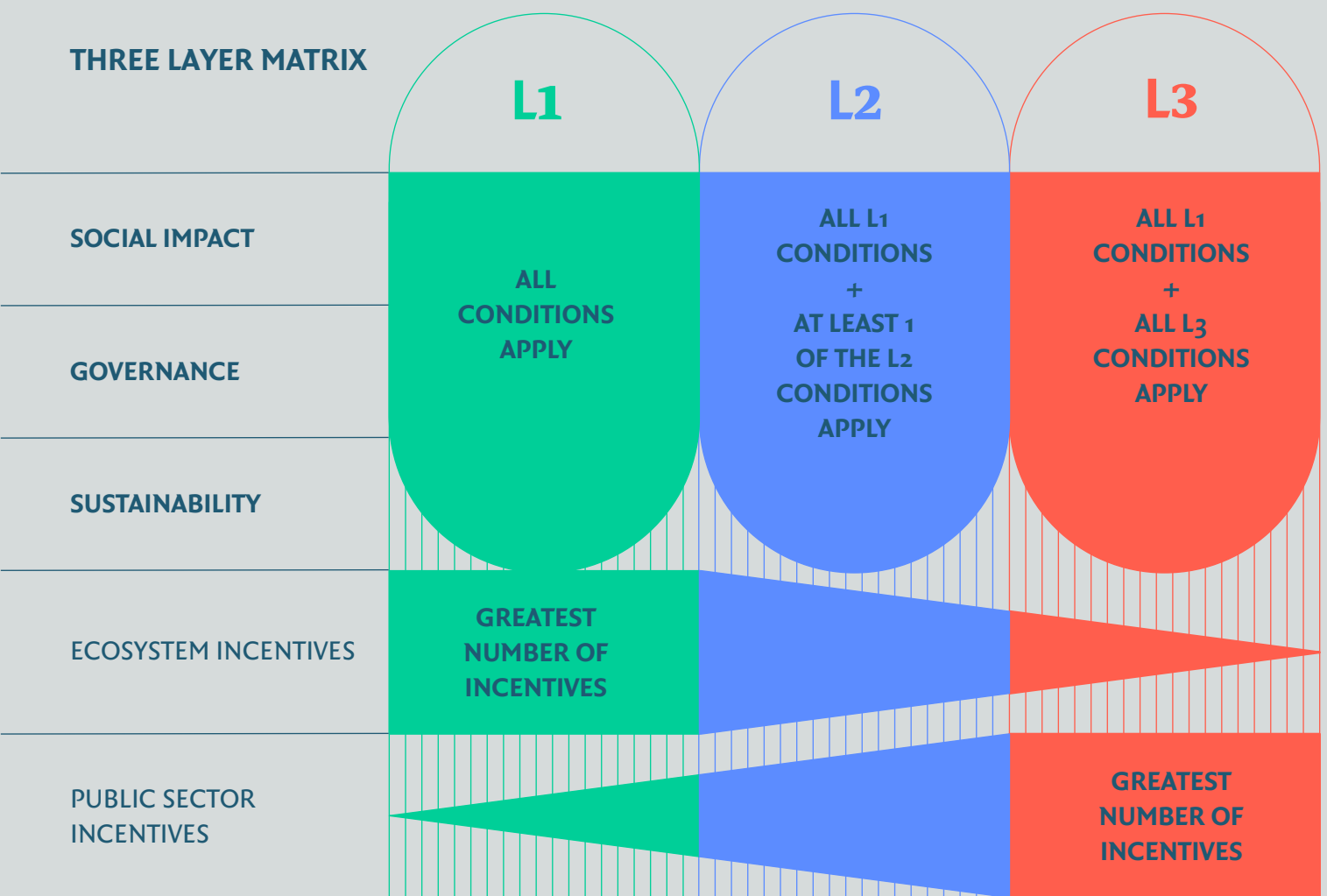
Regain citizens' trust in public support services, institutions and governing system.

(C) A CONTEXTUALIZED POLICY FRAMEWORK

As mentioned previously, there is **no specific legal form for social enterprises** in Lebanon and as such, social entrepreneurs use existing legal forms to set up their entity either as an NGO, a commercial enterprise, or as a cooperative.

A detailed legal review of existing legal models in Lebanon, demonstrated the lack of alignment related to the provisions specific to social enterprises, such as a measurement of social impact and the institutionalization of mechanisms for inclusiveness, participation, and accountability. The legal review analyzed **three possible policy options for social entrepreneurship as presented in the table below:**

	CREATING A NEW LEGAL FORM FOR SOCIAL ENTERPRISES	AMENDING EXISTING MODELS TO INTEGRATE SOCIAL ENTERPRISES	DESIGNING A QUALIFICATION MODEL
ASSUMPTIONS	<ul style="list-style-type: none"> Existing legal models are very conventional and do not allow the development of social entrepreneurship. A new legal framework would allow conciliating social impact and financial sustainability. 	<ul style="list-style-type: none"> A change in the existing legal models would lead to filling the gap needed to include social enterprises within one of the models such as SAL, SARL, Cooperative or NGO. Integrating social entrepreneurship within the existing legal models contributes to its promotion. 	<ul style="list-style-type: none"> A qualification process to enterprises that meet specific criteria is a more viable and simple option compared to the amendment of existing legal forms A qualification would provide a set of incentives encouraging social enterprises to increase their social impact, regardless of their legal model.
OBJECTIVE	<ul style="list-style-type: none"> Provide incentives for new social enterprises that fulfill the requirements to help increase their social impact. 	<ul style="list-style-type: none"> Expand the existing legal frameworks to integrate social enterprises. Provide incentives for existing social enterprises to improve their social impact. 	<ul style="list-style-type: none"> Target a wider number of existing social enterprises. Provide incentives for existing social enterprises to improve their social impact.
STRATEGIES	<ul style="list-style-type: none"> Advocate for the adoption of a set of laws related to the entity and status for social enterprises. 	<ul style="list-style-type: none"> Advocate for the amendment of the existing legal frameworks. 	<ul style="list-style-type: none"> Advocate for a simple, easy and fast framework to endorse and regulate the sector.
ADVANTAGES	<ul style="list-style-type: none"> Encourage new enterprises to register directly as social enterprises. 	<ul style="list-style-type: none"> Simplify legal process by amending laws instead of pushing for a complete legal framework. Simplify process by removing the need to re-register. 	<ul style="list-style-type: none"> Easy to pass and implement with the right governance model and partners. Gives space to any organization to decide whether the efforts to fulfill the requirements are worth the incentives.
DISADVANTAGES	<ul style="list-style-type: none"> Implies the need for existing social enterprises to re-register and thus the risk of existing social enterprises not switching to the new legal status if the process is hard, slow or expensive. Includes heavy legislative and lengthy process. Risk of existing social enterprises registered as NGOs losing their access to potential funds. 	<ul style="list-style-type: none"> Requires more time to amend existing models. Complicates implementation, especially in terms of differentiating between social enterprises and non-social enterprises registered within the same legal model. 	<ul style="list-style-type: none"> Requires proper and close follow up, particularly in ensuring positive governance practices are implemented.



Based on the analysis, the Qualification Model is found to be the best suited to social entrepreneurs in Lebanon, particularly since it 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 support from ecosystem players 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
YEARS OF OPERATION		Operating for a minimum of 2 years		
SOCIAL IMPACT	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
INCLUSION		Signed and published non-discriminatory statement related to nationality, race, color, religion, gender, gender expression, age, disability, marital status, socio-economic status, etc.		
GOVERNANCE	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	L1	L2	L3
	<ul style="list-style-type: none"> Access to administrative support services from SE ecosystem Access to marketing channels through ecosystem Access to mentoring & coaching support through SE ecosystem Access to financing tools through SE ecosystem Access to a platform for SEs for networking & access to markets 	<ul style="list-style-type: none"> Access to international markets and partnerships 	<ul style="list-style-type: none"> Model Social Enterprise Award

PUBLIC	L1	L2	L3
	<ul style="list-style-type: none"> Reduced Incorporation cost Access to financial tools through Central Bank and others Tax exemption on grants 	<ul style="list-style-type: none"> Tax Incentives - No tax on profit if all is reinvested Tax incentives for Equity Investors [up to a ceiling] Access to international markets and partnerships Exemption on the 7.5% tax for freelancers National Social Security Fund (NSSF) fees subsidies 	<ul style="list-style-type: none"> Advantage in Public Social Procurement in priority sector

(D) A MULTI-STAKEHOLDER GOVERNANCE MODEL

As mentioned previously, the suggested policy framework implies the availability of an entity that would provide the certification as well as a thorough follow up to ensure a proper implementation and enforcement of the policy.

The entity would focus on the following functions:

- Review applications and qualify social enterprises that respect the set criteria.
- Develop tools, KPIs and mechanisms for contextualized social impact measurement and reporting.
- Provide social enterprises with updated data on priority sectors and regions.
- Build and follow up on partnerships with state and non-state actors for support services.
- Support social enterprises to achieve and sustain the requirements for qualifications.

TYPE OF ENTITY

REQUIREMENTS

ADVANTAGES

DISADVANTAGES

PUBLIC AUTHORITY UNDER THE TUTELAGE OF A MINISTRY

- A law should be proposed for the setup of a Public Authority with clear mandate, role and structure.
- Appointments within this authority should be done based on merit and expertise.
- Financial resources need to be dedicated for it to be operational.

- High level of engagement of the relevant ministry
- Gives the process the needed formality and support for any public incentives

- Creation of a new entity will require time
- Link to one Ministry will reduce engagement and influence from other ministries as well as non-state actors
- Risk of limited transparency and accountability
- Risk of cooptation of the process
- Limited resources (human and financial)

ENTITY UNDER THE TUTELAGE OF THE PRESIDENCY OF THE COUNCIL OF MINISTERS

- A cabinet decree can assign the role of qualification
- The tax incentives could be added within the public budget document.
- Financial and human resources need to be dedicated for it to be operational.

- Defines national socio-economic strategy
- Can create and chair a multi-stakeholder governance model
- Coordination role among actors
- Gives the process the needed formality and support for any public incentives

- Risk of limited role in setting socio-economic strategy
- Affected by public officials' appointment
- Limited resources (human and financial)

CERTIFYING NON GOVERNMENTAL ENTITY

- A governance model for an NGO should be agreed upon to involve government entities.
- An agreement on the represented entities need to be finalized prior to establishment.
- Bylaws need to be drafted and agreed upon.
- Financial resources need to be dedicated for it to be operational.

- Can easily include the needed human resources
- Easy to set up and manage
- Low risk of corruption and co-optation

- Limited engagement of regulatory entities
- Limited influence on policy framework and overall implementation process

The suggested governance model is a multi-stakeholder entity aiming at merging knowledge, expertise and networks from the public, private and non-governmental sectors to build and deliver services for youth, communities and enterprises for sustainable socio-economic development.

The multi-stakeholder governance model ensures:

- Giving the process the needed formality and support for any public incentives
- The needed human resources are easily included
- Lower risk of corruption and cooptation

The entity would engage elected representatives of core stakeholders based on their relevant experience, to support as:

CORE TEAM

Provides follow up and monitoring of the qualification process as well as coordination among different partners and stakeholders to develop the needed tools and collect data for research and service development.

Members of the core team could include:

- Dedicated public servants within the selected governing body
- Representatives of networks of social enterprises
- Representatives of research and academic entities and business support organizations

ADVISORY TEAM

Provides direction and support in partnership building and networking as well as alignment of set strategies within their organizations with the framework.

Members of the advisory team bring together:

Representative of core ministries, international development agencies and the private sector.

