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ASSESSMENT OF SME ENVIRONMENT IN LEBANON

ASSESSMENT OF SMALL AND MEDIUM SIZE ENTERPRISE (SME)

ENVIRONMENT IN LEBANON

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A project
submitted in partial fulfillment of the requirements
for the degree of Master of Business Administration
to the Faculty of Business Administration & Economics
at Haigazian University

Beirut, Lebanon
December 20, 2005

Date of project presentation: Dec

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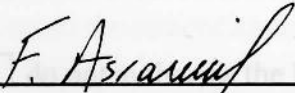
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PROJECT RELEASE FORM

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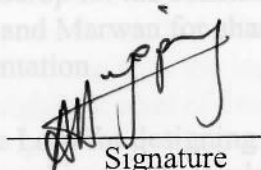
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AN ABSTRACT OF ACKNOWLEDGEMENTS

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Last but not the least, I express my gratitude to the Lord for designing the needed environment of family and friends without which no achievement would have ever been possible. In view of that, I dedicate this degree and success, first to the Lord and second, to my family and friends for their patience, understanding, prayers, and support.

At the end, recommendations to develop an enabling environment for the Lebanese SMEs are briefly presented based on the observations noted throughout this preliminary research.

AN ABSTRACT FOR THE PROJECT OF

Alexan Edgar Hagopian for Master of Business Adm. & Economics
Emphasis: Finance

Title: Assessment of Small and Medium Size Enterprise (SME) Environment in Lebanon

While SME or Small and Medium Size Enterprises is a widespread term echoed assertively in globalized and highly integrated world economies as a catalyst for real and rapid economic transformation, it remains of limited echo in the Lebanese economy even though much of Lebanon's businesses are SMEs.

The underlying study aims at assessing the fundamental and environmental foundation upon which the Lebanese SMEs rest with the aim of arriving at recommendations that would create a favorable environment for SMEs in Lebanon. In such an attempt, this project aims to define SMEs in Lebanon, to conduct an exploratory research at the micro- and macro-environmental levels, to highlight environmental obstacles, and to raise recommendations for developing a more enabling environment for these SMEs.

After arriving at an appropriate definition of the SMEs in Lebanon as business enterprises with workforce sizes not exceeding forty employees, the study reviews the Lebanese macroeconomic environment embodying the SMEs along with the legal and financial frameworks within which these SMEs operate to highlight a set of descriptive hypotheses revolving around the influential factors on the employment decisions, the business investment decisions, the registration patterns, the past performance, and the future expectations. In addition and in light of the data gathered from the field survey of fifty four SMEs, the research examines the possibility of a relationship between these decisions on one hand and the demographics – gender, age, educational background, experience – of the SME owners, and location, size, sector, date and manner of establishment, and legal status or business type of the SME, on the other hand.

At the end, recommendations to develop an enabling environment for the Lebanese SMEs are briefly presented based on the observations noted throughout this preliminary research.

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1.1 Methodology

This paper reports on the findings of an investigation into the legal and financial environments in which SMEs operate in Lebanon. This entails a review and

CHAPTER 1

INTRODUCTION

Much of the hope for real and rapid economic transformation in today's globalized and integrated world economy rests with the emerging new small business sector. Much of Lebanon's businesses are Small and Medium Sized Enterprises (SME). These firms have been at the forefront of the country's economic transformation. They have in common that many were fortunate enough to have strong leadership. Indeed and as put by Economy and Trade Minister, Mr. Sami Haddad "...the small and medium-size firms are the backbone of the economy and they can easily adapt to any new environment..." (*The Daily Star*, September 29, 2005, www.dailystar.com.lb).

Given this fact, the basic premise of this project is to assess the fundamental and environmental foundation upon which the Lebanese SMEs rest with the aim of arriving at recommendations that would create a favorable environment for SMEs in Lebanon.

1.1 Methodology

This paper reports on the findings of an investigation into the legal and financial environments in which SMEs operate in Lebanon. This entails a review and

assessment of the relevance and effectiveness of various environmental factors that impact employment, investment, and registration patterns of SMEs by both male and female owners of different educational and professional backgrounds. Particular attention will also be given to gaps in such decisions or patterns among urban and rural SMEs as well as among SMEs of different sizes, business types, and sectors. In such an attempt along with the effort of arriving at an appropriate definition of SMEs in Lebanon and raising out recommendations for developing a more enabling environment for these SMEs, the perceptions and experiences of SME owners and managers have been gathered through a series of interviews to complement the review of existing documentation on the shape of the economy along with the state of legal and financial frameworks.

Accordingly, the methodology employed in the current study comprises a literature review concerning the definition of SMEs in Europe and United States, the Lebanese macroeconomic environment embodying the SMEs, the legal and financial frameworks within which Lebanese SMEs operate as well as an assessment survey covering 54 Lebanese SMEs distributed over the Lebanese territory and among the various economic sectors. Specifically speaking, the material used extends from interviews to official publications to electronic sources developed by individuals, economists, official local and international authorities with the aim of formulating a number of hypotheses to be tested using the Statistical Package for Social Sciences (SPSS) software to arrive at the objectives stated above.

1.2 Project Objectives

As a project assessing the Lebanese SME environment, this study aims to define SMEs in Lebanon, to conduct an exploratory research at the micro- and macro-environmental levels, to highlight environmental obstacles, and to raise recommendations for developing a more enabling environment for these SMEs. In particular, the research shall:

- Arrive at a definition of SMEs in Lebanon based on European and American definitions,
- Carry out a review of the SME environment in an attempt to highlight the descriptive and relational hypotheses to be tested at later stages of the study. Specifically speaking, the review shall focus on:
 - the macro-economic environment with respect to the geographic, administrative, and economic aspects
 - the labor market conditions in terms of labor force size, distribution, and employment
 - the business setting with regard to the available physical infrastructure and capital access
 - the legal framework in terms of the registration requirements and the pertinent rules and regulations
 - the financial framework in terms of tax regulations and requirements

- Conduct key informant interviews with a sample of 54 SME owners and portray their gender, age, and educational attainments on one hand; and the location, size, and legal status of these SMEs on the other
- Investigate some of the decisions made by SME owners pertaining to:
 - Employment as changes in the workforce size and benefits offered to the employees
 - Business investments decisions as purchases of new office or production equipments, improvements in the working environment, expansion of business premises, and new product developments
 - Registration patterns with income tax and value added tax authorities, Ministry of Labor, Ministry of Economy & Trade, Ministry of Industry, Chamber of Commerce
- Explore the past performance evaluation and the future expectations of the SMEs
- Perform descriptive hypotheses regarding the factors influential on:
 - Employment decisions (namely the influence of the nation's economic performance on the changes in the workforce size and the impact of benefits offered to employees on their performance in the workplace)
 - Business investment decisions (mainly the impact of the market conditions, cost of borrowing, rules and regulations on undertaking a particular investment project)

- Registration patterns (specifically the influence of the registration requirements on the registration decisions)
 - Past performance evaluations (the factors lying behind a particular performance level), and the future expectations (the factors contributing to such an expectation)
- Examine possible relationships between employment, business investment, registration decisions on one hand and the demographics – gender, age, educational background, experience – of the SME owners or the SME Owner Profile, and location, size, sector, date and manner of establishment, and legal status or business type of the SME or the SME Profile, on the other hand
 - Evaluating the impact of official field visits from some official agencies on the registration decisions of the SMEs with these agencies
 - Examining the existence of any relation between each of the financial resources, sales level changes, and workforce size changes and the past performance of the SMEs

1.3 Scope of Research

In what follows the project shall first define the SME in the Lebanese case before moving on to the third chapter covering the review of macroeconomic, legal, and financial state of affairs. Chapter Four of the study shall present the research

methodology applied, while Chapter Five shall provide a summary of the survey results before moving on to the hypothesis testing of the gathered data. Finally, Chapter Six shall raise a number of recommendations and conclude.

Two major limitations exist regarding the subject. The first of such limitations revolves around the sampling approach in terms of sample selection (judgmental rather than random) and size (54 SMEs), and the second relates to the qualitative nature of the data collected for the study.

In an attempt to arrive at an appropriate SME definition for Lebanon, a brief overview of the definitions employed in Europe and the United States will be presented.

¹ OECD Small and Medium Enterprise Outlook, 2000 Edition, OECD, Paris, page 7

SME DEFINITION

Up to December 31, 2004, the European Commission used the *Commission Recommendation of 3 April 1996 Concerning the Definition of Small and Medium-Sized Enterprises (2002/214/EC)* to define Small and Medium-Sized Enterprises. However, as of January 1, 2005 a new definition became operative in Europe according to the *Commission Recommendation of 26 June 2003*. The number of workers employed, the volume of output or sales, the value of assets employed, and the use of energy are some of such criteria. Still some other definitions are based on whether the owner of the enterprise works alongside the workers in his/her enterprise, the degree of sophistication in management, and whether or not an enterprise lies in the "formal" sector i.e. is registered with the official authorities. For example, the Organisation for Economic Co-operation and Development (OECD) defines establishments with up to 19 employees as "very small"; with up to 99 as "small"; from 100 to 499 as "medium"; and with over 500 as "large". However, many establishments in some developing countries with 100 to 499 employees, the OECD definition for "medium", are regarded as relatively large firms¹.

In an attempt to arrive at an appropriate SME definition for Lebanon, a brief overview of the definitions employed in Europe and the United States will be presented.

Given the fact that many enterprises used to present themselves as SMEs in an attempt to getting access to and benefiting from SME support mechanisms and programs, such a modernization of the definition aimed to ensure that only enterprises

² Official Journal L 107 of 30/04/1996

¹ OECD Small and Medium Enterprise Outlook, 2000 Edition, OECD, Paris, page 7

2.1 SME Definition in Europe

Up to December 31, 2004, the European Commission used the Commission Recommendation of 3 April 1996 Concerning the Definition of Small and Medium-Sized Enterprises (96/280/EC)² to define Small and Medium Sized Enterprises. However, as of January 1, 2005 a new definition became operative in Europe according to the Commission Recommendation of 6 May 2003 Concerning the Definition of Micro, Small and Medium-Sized Enterprises³ (Summary of Legislations, Online Survey, www.europa.eu.int).

Initially, enterprises with fewer than 250 employees and annual sales not exceeding EUR 40 million or annual balance-sheet totals less than EUR 27 million were referred to as medium sized enterprises, while those employing between 10 and 49 employees and enjoying annual sales below EUR 7 million or annual balance-sheet total not exceeding EUR 5 million were known as small sized enterprises. As for the micro enterprises, they were defined by the number of workers only and included those employing less than 10 employees (Summary of Legislations, Online Survey, www.europa.eu.int).

Given the fact that many enterprises used to present themselves as SMEs in an attempt to getting access to and benefiting from SME support mechanisms and programs, such a modernization of the definition aimed to ensure that only enterprises

² Official Journal L 107 of 30/04/1996

³ Official Journal L 124 of 20/05/2003

with real SME characteristics as staff size and/or annual sales benefit from such programs (Summary of Legislations, Online Survey, www.europa.eu.int).

Presently the recognition of an enterprise as an SME involves compliance with both staff thresholds and thresholds for either sales or balance-sheet total. Therefore, medium-sized enterprises currently comprise all those enterprises having between 50 and 249 employees and a sales threshold of EUR 50 million or balance-sheet total of EUR 43 million. Similarly, small enterprises consist of those hiring between 10 and 49 employees and reporting sales or balance-sheet total thresholds of EUR 10 million. Finally and with regards to micro-enterprises, they include all those whose workforce size falls below 10 employees and sales threshold of EUR 2 million (Summary of Legislations, Online Survey, www.europa.eu.int).

2.2 SME Definition in The United States

Unlike Europe that incorporates both the number of employees and the sales or balance-sheet total in its SME definition, the United States qualifies enterprises as small or medium based merely on the number of employees. As such all enterprises employing less than 500 employees are classified as small or medium sized enterprises in the United States (OECD Small and Medium Enterprise Outlook, 2000 Edition, OECD, Paris, page 7).

2.3 SME Definition in Lebanon

These two criteria in addition to that found in the Labor Law that requires enterprises to post their statute of operation at instances where they employ more than 15 employees. Even though in today's highly globalized and integrated world economy SMEs are viewed as major players, the Lebanese government has yet to develop a legal definition of SMEs. As a result, no laws or regulations that are specific to SMEs have been enacted and as such no legal definition exists. Despite this fact however, some of the recently launched programs or legislations by the Lebanese government tend to provide a foundation upon which a definition for the Lebanese SMEs would be built. Among these programs and legislations one would note the Government Credit Fund or the Kafalat program and the Value Added Tax (VAT) legislation.

On the other hand, using the United States standard i.e. number of employees, SMEs would be defined as enterprises that employ less than 500 employees. The Kafalat is a Lebanese financial company owned by the National Institute for the Guarantee of Deposits (75%) and fifty Lebanese Banks (25%) targeting the SMEs and providing them access to commercial bank funding. Kafalat sets forth a list of eligibility criteria for the SMEs. Among these criteria, the enterprise size identified in terms of the number of employees would best serve our purpose of arriving at a definition for the SMEs in Lebanon. In fact, this fund considers SMEs as eligible for its services if they employ 40 employees or less (www.kafalat.com.lb).

The recently implemented VAT legislation in its turn tends to provide a basis for defining SMEs. Indeed, the VAT legislation sets SMEs apart from other enterprises based on income as it states a threshold of LBP 150 million for the Enterprises to register and pay value added taxes.

CHAPTER 3

These two criteria in addition to that found in the Labor Law that requires enterprises to post their statute of operation at instances where they employ more than 15 employees, may provide a blueprint upon which a definition of SMEs in Lebanon could be built. Given the size of the Lebanese economy, it is evident that neither the United States definition (less than 500 employees) nor the European definition (less than 249 employees) applies. All that could be relied on from the European and United States definitions would be the format i.e. the incorporation of either financial criteria or employee size or both. Relying mainly on financial criteria, the SME definition in Lebanon could be based upon VAT legislation only that set a threshold of LBP 150 million and as such SMEs would be those with an income not trespassing this threshold. On the other hand, using the United States standard i.e. number of employees, SMEs would be, in general, defined as enterprises employing less than 40 employees (small enterprises) according to the Kafalat with the small enterprises employing less than 15 employees according to the Labor Law.

In the name of consistency, this report shall use the term "SME" when referring to self-employed persons and enterprises with no more than forty employees.

CHAPTER 3

THE SME ENVIRONMENT

As a first step towards identifying and studying the situation of Lebanese Small and Medium Size Enterprises, this chapter of the project shall provide a description of the environment within which SMEs operate beginning with Lebanese macroeconomic and business setting, moving on to the labor market, and ending with the legal and financial frameworks.

3.1 Macroeconomic Environment

3.1.1 Geographic Aspect

As an introductory note to this chapter, the underlying part shall briefly touch on the geography, population, administration, and economy of Lebanon making up the nation's profile. All such facts shall be dealt with using figures from local as well as international fact books.

The Republic of Lebanon is situated in the Levant on the eastern part of the Mediterranean Sea, with its Mediterranean shoreline extending 192 kilometers from

north to south and its greatest width from west to east being 85 kilometers, has a total area of 10,452 square kilometers of which 10,400 square kilometers represent land area and the remaining represent water area (www.cia.gov).

As a mountainous country made up of two parallel ranges of mountains running north to south and the fertile Bekaa valley in between along with its two main rivers, Lebanon not only combines an alpine climate in the mountains with a Mediterranean one along the coast, but also enjoys natural resources as limestone, iron ore, salt, and arable land. Whereas 16.62% of its land is classified as arable land according to the Central Intelligence Administration (CIA) publications of 2001, the permanent crops form only 13.98%. From a historic and cultural heritage perspective, Lebanon has been a contact hub between various cultures and civilizations with traces going back over six thousand years.

3.1.2 Population Aspect

About the age structure of the Lebanese population, Table 1.1 adapted from CIA 2005 estimates reveals three major classes: 0-14 years, 15-64 years, and 65 years and over. While the 15-64 years class encompasses most of the population (66.4%) with an almost 50-50 distribution in terms of gender, the 65 years and over class entails the smallest percentage (6.9%) with 120,170 males and 143,194 females. Thus one could conclude from these figures that first, the SMEs would be owned by young Lebanese and would be dealing with and employing a young population as the population growth rate is 1.26% in 2005, World Population Datasheet of Population Reference Bureau (PRB) expects an overall 35% change in the Lebanese population over a twenty year period extending from 2003 to 2050.

majority One population figure of specific concern to SMEs is the urban population. The most recent estimation could be found in the PRB 2003 World Population Data Sheet that reports it as 88% of the Lebanese population. This figure points out to two facts: first, SMEs would have to be mainly concentrated in urban areas serving the urban population; and second, most of the SME owners and employees would be inhabitants of urban areas.

The urban population growth rate as presented by the United Nations Demographic Yearbook suggests some sort of volatility in the urban population growth rate could be noted from the figures that range from around 4% for the period 1990-1995 and 0.3% for the period 1985-1990. Such volatility could be explained by the instability created during the civil war. The peak in the urban population growth rate achieved during as of the 1990s (an average of 4.04% for the period 1990-1995) after targeting all time low figures during the war phase, would be an indication of an increase in the number of SMEs established in urban areas though the number may have decreased since 1995 as the urban population growth lessened.

About the age structure of the Lebanese population, Table 3.1 adapted from CIA 2005 estimates reveals three major classes '0 – 14 years', '15-64 years', and '65 years and over'. While the '15 to 64 years' class encompasses most of the population (66.4%) with an almost 50-50 distribution in terms of gender, the '65 years and over' class entails the smallest percentage (6.9%) with 120,176 males and 145,194 females. Thus one could conclude from these figures that: first, the SMEs would be owned by young Lebanese and would be dealing with and employing a young population as the

majority of the residents are below the age of 65; and second, the labor market at the disposal of the SME is limited since a large portion of the population i.e. 66.4% could be classified in the labor force. Such figures coincide with similar estimations released in 2003 in PRB 2003 World Population Data Sheet with the population under the age of 15 standing at 28% and the over age of 65 years standing at 7%.

Table 3.1 – Population Age Structure by Gender			
		Gender	
Age (years) - % of Population		Male	Female
0 – 14	26.7%	520,270	499,609
15 – 64	66.4%	1,216,738	1,324,031
65 and over	6.9%	120,176	145,194
Source: CIA Factbook, 2005, www.cia.gov			

The Lebanese male residents are equally divided around the age of 26.28 years which is lower than that of the Lebanese female residents who are equally divided around the age of 28.43 years (CIA Factbook, 2005).

The historic and cultural diversity of Lebanon would be best described as a blending bowl of seventeen officially recognized religious sects that speak 3 to four languages. Based on CIA’s projected figures for the year 2005, Muslims constitute 59.7% of the Lebanese population with five major sects, Christians 39% with around seven sects, and the minorities form the remaining 1.3%.

Table 3.2 depicts the literacy rate in Lebanon. It shows that 87.4% of the population over age of fifteen can read and write with the rate being slightly higher for

the males (93.1%) than for the females (82.2%) suggesting the fact that a significant portion of the SME owners to be literate.

Table 3.2 – Population Literacy Rate	
	Literacy Rate (%)
Total	87.4
Male	93.1
Female	82.2
Source: CIA Factbook, 2003, www.cia.gov	

3.1.3 Administrative Aspect

The administrative issues that tend to affect the SME operations in Lebanon could be summarized around the following points:

- The division of the Lebanese territory into six administrative divisions or governorates or mohafazat - Beirut, Beqaa, North Lebanon, South Lebanon, Mount Lebanon, and Nabatieh – that require SMEs to undertake their registration and legal procedures in their district of location and operations,
- The structure of the legal system as a mixture of Ottoman law, canon law, Napoleonic code, and civil law with no judicial review of legislative acts that shape up the legal framework within which the SMEs operate, and

- The three governing branches are the executive, legislative, and judicial branches that attempt to create, alter, or eliminate rules and regulations affecting SME functions.

As the chief of state, the head of the Cabinet, and the Cabinet chosen by the prime minister in consultation with the president and members of the National Assembly elections form the Executive branch, unicameral National Assembly with 128 members elected for four year terms by popular vote on the basis of sectarian proportional representation forms the Legislative branch. Lastly, the four Courts of Cassation for civil, commercial cases, and criminal cases, the Constitutional Council for constitutionality of laws, and the Supreme Council for charges against the president and prime minister form the Judicial branch.

3.1.4 Economic Aspect

With reference to the economic profile, economic indicators of relevance to SMEs and as released by CIA for the year 2004 point to:

- A Gross Domestic Product (GDP) of USD 18.83 billion and per capita of USD 5,000 with a 4% growth rate. According to the most recent breakdown of GDP among the various sectors as available in the CIA Factbook for the year 2000 is as follows: agriculture (12%), industry (21%), and trade and services (67%). The numbers suggest that the

nation is mainly based on services and as such more growth

opportunities are available for SMEs in the service sector as compared to those in the agriculture or industry.

- an inflation rate of 2% in 2004 possibly due to the introduction of the value added tax,
- a budget of USD 4.895 billion worth of revenues and USD 6.642 billion worth of expenditures creating a budget deficit of USD 1.747 billion,
- a public debt of 177.9% of GDP in 2004 with the foreign debt being \$15.84 billion,
- a negative current account balance of USD 2.389 billion along with USD 16.3 billion in foreign exchange reserves and gold. These numbers reflect the nature of the economy as based on imports reflecting that the majority of the SMEs would be involved in importing transactions and a few in exporting transactions.

The Lebanese economy has been facing some signs of sluggishness over the past couple of years with the growth contracting in real terms due to the fall in aggregate demand in both its private and public spending components. The Lebanese economy is based on the private sector which contributes around 80% of aggregate demand. It is a well-diversified sector that covers the totality of the economic activities and is a catalyst for economic growth. The public spending contraction did not serve the purpose of limiting the deterioration of the fiscal condition. The continuous over-spending by the government lead to further increases in indebtedness

(www.finance.gov.lb).

contributed to GDP on a lesser scale were construction with 9.4%, housing with 8.5%,

agriculture. Given the fact that the private sector acts as a major contributor to the Lebanese, the SMEs as part of this sector would be expected to have experienced a fall in their sales and business investment projects in comparison with the previous years.

At the capital market level, the majority of the activity is underlined by an important fixed income demand in both its LBP and foreign currency components due to attractive risk-reward conditions and to luring real yields on the LBP side. Moreover, the capital market witnesses a sluggish equity performance in both prices and trading volumes as a result of general environmental factors and relatively low liquidity and efficiency levels (www.bdl.gov.lb).

Furthermore, based on figures released by the International Monetary Fund for the period 2001-2004, the real GDP growth rate tended to significantly increase only after 2003 when it rose to 5% after a period of conservative behavior during 2001-2003 with real GDP growth rates of 2% and 3%. In dollar terms, the real GDP ranged from USD 17.3 to USD 18.7 billion over the four year period 2001-2004.

The production side and the GDP composition by sectors according to the most recent breakdown are summarized in Table 3.3. Trade and other market services constituted 45% of GDP in 1997 and 25% in 2002. In addition the industrial sector in 1997, through its cement, furniture, paper, detergents, cosmetics, pharmaceuticals, batteries, garments and processed foods sub-sectors, accounted for 13.5% of GDP compared to 17.3% of GDP in 1995 and 15.9% in 1972. The other sectors that

contributed to GDP on a lesser scale were construction with 9.4%, housing with 8.5%, agriculture 6.3%, and transport and communication with 5.3%. Given such a breakdown, one would expect the SMEs to be mainly concentrated in trade and services followed by industry.

Table 3.3 – GDP Breakdown by Sector (Billion LBP)	
Sector	% of GDP
Agriculture	6.3
Energy and water	1.5
Manufacturing	13.5
Construction	9.4
Transport & Communication	5.3
Housing	8.5
Other Market Services	22.6
Trade	21.3
Non Market Services	11.6
Total	100.0

Sources: Ministry Of Economy and Trade, 1997,
www.economy.gov.lb

The breakdown of GDP by economic sector for the year 2002 reveals:

- a fall in the contribution of trade and other market services to 25% of GDP implying once again a fall in the sales and the production of the SMEs in the trade sector as discussed earlier
- an increase to around 29% of GDP in the contribution of the industrial sector hinting a possible rise in the activities of the industrial SMEs,
- a decrease in the contribution of construction sector to half of 1997 figure (4%)

employ In summary, such a review of the macroeconomic environment reveals a sluggish outlook for the economic activity that could, in turn, be affecting some of the decision areas made by the SMEs. Thus, one particular interest to test would be the potential relationship between the nation's economic activity on one hand and the changes in the workforce sizes as part of employment decisions by the SMEs on the other.

With respect to the rights and responsibilities of the employees, the SMEs are subject to the Labor Law that distinguishes between two major categories of workers - professional workers holding office jobs and manual laborers - and asserts certain

responsibilities. For instance, SMEs have to abide by the following provisions of the law such as a three-month probation period upon hiring, a

ten days paid vacation for full time employees, compulsory public holidays on Labor Day and Independence Day, half month paid sick leave after three month employment, and two-day bereavement leave.

Even though As discussed previously, the active labor force i.e. the working population aged between 15 and 64 is around 66.4% of the resident population or about 2.6 million.

Typically, men begin working at a relatively young age and have a long working life. In addition, SMEs have at their disposal as many as 36.6% of the 15 to 19 age group and more than half, or 56.1%, of the 65 to 69 year age bracket - i.e. those beyond normal retirement age - who are active. The 24-to-30-year-olds are the most economically active age group.

Working Conditions Survey conducted by the Central Administration of Statistics (CAS) disclosed a national salary of LBP 10,512,000 or around USD 6,973 in

1996-1997 From a legal perspective, SMEs are affected by two basic laws and a judicial committee under which the Lebanese labor market operates. Whereas the judicial committee, known as Labor Arbitration Council governs the disputes between

employers and employees, the Labor Law enacted in 1946 administers the general working conditions and the Social Security Law of 1963 oversees provisions for benefits such as end-of-service compensation, family allowance, sickness, maternity, and compensation for work-related accidents.

With respect to the rights and responsibilities of the employees, the SMEs are subject to the Labor Law that distinguishes between two major categories of workers - professional workers holding office jobs and manual laborers - and asserts certain employees' rights and responsibilities. For instance, SMEs have to abide by the following provisions of the law such as a three-month probation period upon hiring, a maximum of 48 regular hours per week, fifteen days paid vacation for full time employees, compulsory public holidays on Labor Day and Independence Day, half month paid sick leave after three month employment, and two-day bereavement leave. Even though the Labor Law dictates no payment obligations for damages or entitlements upon the termination of a work contract by consensus, it preserves compensation for the injured party otherwise.

SMEs are also subject to the national salary scales as set by the Ministry of Labor stands at a minimum of LBP 300.000 for both the public and the private sector. The National Living Conditions Survey conducted by the Central Administration of Statistics (CAS) disclosed a national salary of LBP 10,512,000 or around USD 6,975 in 1996-1997 as the annual average national. Taking into consideration the existence of more than one contributing member among the families, the real income was reported to be LBP 15,241,000 or USD 10,106 per year.

Table 3.4 – Distribution of Companies According to Number of Employees and Mohafaza

Table 3.4 shows that Lebanon hosts 198,436 companies that employ 720,000 people distributed over the six governorates. Segmenting these companies by their size in terms of number of employees, CAS proposes that only 6.3% of the companies employ more than 10 employees in contrast to 86.4% of the companies or a total of 171,500 companies are SMEs that hire less than five employees. In addition, the Bekaa district is exposed as an SME center where companies are oriented towards hiring fewer employees with 93.2% of the companies in the district are SMEs employing less than five employees followed by Nabatieh and the North with 92.2% and 91.1% respectively of their companies employing less than five employees. Among the six districts, Beirut looks to be the region which hosts the least percentage of SMEs among its companies (81% that employ less than five employees). This could be related to its being the nation's capital and thus a centre point for multinational and local firms relatively larger in size.

Table 3.4 – Distribution of Companies According to Number of Employees and Mohafaza

No of Employees/ Mohafaza	Less than 5	% of total	5 to 9	% of total	More than 10	% of total	Total	% total
	Industrial	%		Partnership	%		Limited	%
Beirut	19,979	81.0	2,078	8.4	2,603	10.6	24,660	12.4
Mount	62,805	85.5	4,575	6.3	5,813	7.9	73,192	36.9
North	40,359	91.1	1,691	3.8	2,244	5.1	44,294	22.3
Bekaa	24,986	93.2	895	3.3	925	3.5	26,806	13.5
South	17,174	89.4	785	4.1	1,251	6.5	19,210	9.7
Nabatieh	9,470	92.2	329	3.2	475	4.6	10,274	5.2
Total	171,379	86.4	10,139	5.1	12,435	6.3	198,436	100

Source: Central Administration of Statistics (CAS), 2004, www.databank.com.lb

Mohafaza	Joint Stock	%	Others	%	Total
	share	share			
Beirut	764	3.1%	1,643	6.7%	24,660
Mount	922	1.2%	3,663	5.0%	73,192

Table 3.5 shows that the companies working on the Lebanese territories fall mainly under the industrial business status (around 86.4%) with the remaining 15% being in the form of partnerships, limited liabilities, joint stock companies and others. While 75% of the companies in Beirut are classified as individual businesses, partnerships and limited liabilities, the remaining make up 15% of the companies. In contrary to Beirut which has relatively the least number of individual businesses among the five mohafaza, Bekaa has the highest (93.4% of all companies in Bekaa). The distribution of the companies among the mohafaza according to their legal status shows a similar pattern where again Bekaa was the center for the highest number of SMEs employing less than five employees usually associated with individual businesses.

Table 3.5 – Distribution of Companies According to Legal Status and Mohafaza

Mohafaza	Industrial Business	% share	Partnership	% share	Limited Liability	% share
Beirut	18,486	75	1,943	7.9	1,824	7.4
Mount	61,241	83.7	4,904	6.7	2,462	3.4
North	40,888	92.3	1,069	2.4	250	0.6
Bekaa	25,039	93.4	793	3.0	127	0.5
South	16,377	85.3	180	0.9	1,508	7.9
Nabatieh	9,348	91	36	0.4	470	4.6
Total	171,379	86.4	8,925	4.5	6,641	3.3

Mohafaza	Joint Stock	% share	Others	% share	Total
Beirut	764	3.1%	1,643	6.7%	24,660
Mount	922	1.2%	3,663	5.0%	73,192
North	184	0.4%	1,903	0.4%	44,294
Bekaa	114	0.4%	733	2.7%	26,806
South	85	0.4%	1,060	5.5%	19,210
Nabatieh	20	0.2%	400	3.9%	10,274
Total	2,089	1.1%	9,402	4.7%	198,436

Source: CAS complete statistical survey of companies 1996

Extracted from CGTL and ILO March 2000 report titled "The evolution of prices and salaries"

As for the breakdown of the Lebanese labor force by profession Table 3.6

provides a categorization among ten major professions ranging from skilled laborers that make up 21.6% of the total labor force to army personnel that make up 3.6% of the labor force. According to the figures, almost one fourth of the labor force consists of executives (12.3%), professors or teachers (10.5%), and middle managers (8.3%). Still another significant portion of the labor force is divided among skilled and unskilled laborers making up 21.6% and 14.4% respectively. It is clear that SMEs face a labor force whose majority is comprised of professionals as defined by the labor law in comparison with the manual laborers that work on the grounds. In fact, machinery operators, drivers, and agricultural workers constitute only around 15% whereas the professionals the remaining majority.

As far as gender composition, the figures suggest that the Lebanese labor force is not concentrated on males' power, but rather females make up a noteworthy portion as well. Women mainly occupy teaching positions (21.4%) and unskilled occupations (21.5%) in contrast to agricultural (2.1%) and army positions (0.1%). In between these two extremes, still another important portion of women occupy service and retail jobs and administrative posts where they represent 13% and 13.6% of the total labor force.

Table 3.6 – Breakdown of Labor Force by Profession

	Male	Female	% of Total
Skilled Laborers	26.3	4.9	21.6
Executives & Directors	14.2	5.2	12.3
Unskilled Labor	12.4	21.5	14.4
Machinery Operators / Drivers	10.0	3.5	8.5
Service and Retail Employees	8.9	13.0	9.8
Professors and Teachers	7.4	21.4	10.5
Middle Management Professionals	6.6	14.5	8.3
Agriculture Qualified	5.6	2.1	4.8
Army Personnel	4.6	0.1	3.6
Administration Staff	3.8	13.6	6.0
Unspecified	0.2	0.2	0.2
Total	100	100	100

Source: Central Administration of Statistics (CAS), 2004, www.databank.com.lb

Further discrepancies among males and females are found in the posts occupied. It is noted that males occupying executive posts outnumber women by almost three times, while the case is reversed in middle management, administrative, and teaching posts where the percentage of women outweighs that of men.

Looking at the distribution of the workforce by sectors, eight major sectors are presented by the CAS, namely government, agriculture, industry, utilities, construction, transport, hotels and restaurants, and other services. Such numbers tend to reflect the economy's shifts during the civil war and post war periods. Thus the changes in the employment patterns of the SMEs between the pre-and post-war periods appear to be related to their sector. While SMEs in both the agricultural and utilities sectors were able to attract workers in numbers close to their pre-war status at around 110,000 employees and 7,000 employees respectively, other sectors experienced tremendous decreases during the war followed by increases. The construction sector for instance,

used to employ 46,500 employees prior to the civil war, it reached an all period low level of employing 10,000 employees in 1992, and then reached its highest level in 1997 employing as high as 139,000 employees accompanying the reconstruction period launched after the war. Similarly, the Lebanese popular Hotels and Restaurants sector used to offer job opportunities for around 130,000 employees before the start of the civil war, experienced a drop though not as steep as that of the construction sector over the period of 1975-1990 to regain its leading position as of 1992 and reached double its pre-war period level of employment by 1997.

Table 3.7 shows other aspects regarding the labor market. The figures suggest that almost half of the labor force consists of employees below the age of 35 with the number slightly decreasing below the 50% in 1999 compared to 1997. On the other hand the ratio of women that constituted 27% of the labor force in 1997 increased to 36% in 1999. We also note the increased equality in pay looking from gender perspective. The average salary for men and women became almost equal as of 1999.

Table 3.7 – Workplace Overview		
	1997	1999
Workers under 35	54 %	45 %
Average salary (men) per month	\$372	\$438
Average salary (women) per month	\$250	\$430
Ratio of women	27 %	36 %
Source: UNDP / National Employment Office, 1997, www.databank.com.lb		

3.2.2 Employment

Given the general characteristics of the Lebanese labor force discussed in the previous section, the next part will shed some light on the employment statistics.

Table 3.8 – Distribution of Employed Residents by Sex		
Sex	Frequency	% of Total
Females	220,630	20.5
Males	853,776	79.5
Total	1,074,406	100.0

Source: Central Administration of Statistics (CAS), 2004,
www.databank.com.lb

While the 1997 figures included in Table 3.8 previously revealed the employed residents to count around 1.2 million, a more recent 2004 survey of the CAS revealed a lower figure amounting to 1,074,406. These figures suggest supremacy of males over the females by almost four times. Whereas females constitute 20.5% of the labor force and count 220,630, males constitute 79.5% and count 853,776.

Another classification provided by the public authorities would be the distribution of the employed labor force by age as presented in Table 3.9.

Table 3.9 – Distribution of Employed Residents by Age		
Age (years)	Frequency	% of Total
19 and below	48,837	4.5
20-29	278,967	26.0
30-39	287,761	26.8
40-49	230,106	21.4
50-59	140,233	13.1
60-69	66,852	6.2
70 and above	21,651	2.0
Total	1,074,406	100.0
Source: Central Administration of Statistics (CAS), 2004, www.databank.com.lb		

The modal age class is the 30 to 39 years category where the employed amount to 287,761 employees (26.8% of the total) followed closely by the 20 to 29 years age category with 278,967 employees (26% of total). Thus, most of the employed labor force is clustered around the ages 20 to 44 years that altogether constitute approximately 65% of the population. At the extreme sides, under age labor seems to be a fact in Lebanon with around 48,837 below the age of 19 years. The number of employed after the retirement age represents around 2% of the employed labor force with 84 years old as the maximum age being employed.

Table 3.10 provides another distribution of the employed labor force as segmented by their education level. Except for the 4.7% of the employed labor force that is illiterate (around 50,000 employees) and the 4.8% that can read and write, the remaining 90% have some sort of educational background extending from pre-school to university degrees to technical. The bulk of the employed labor force by the SMEs has

elementary, intermediate, secondary, and university education levels which altogether form 80% of the employed labor force. It is considerable to note that those having an elementary education count the most (315,000) and make up around 29% of the employed labor force, whereas those with only secondary level education count the least (129,000). From another angle and comparing the university degree holders to technical degree holders, one could notice that the SMEs have employees with university degrees (192,000) double the number of those with technical degrees whether baccalaureate or superior or license which altogether count around 86,000.

Table 3.10 – Distribution of Employed Residents by Educational Level

Educational Level	Frequency	% of Total
Illiterate	50,201	4.7
Reads and writes	51,202	4.8
Pre-school	10,164	0.9
Elementary	314,999	29.3
Intermediate	237,692	22.1
Secondary	129,395	12.0
University	192,342	17.9
Brevet technique BP	7,733	0.7
Baccalaureate technique BT	47,735	4.4
Technique Supérieur TS	24,748	2.3
License technique LT	6,118	0.6
No answer	2,076	0.2
Total	1,074,406	100.0

Source: Central Administration of Statistics (CAS), 2004, www.databank.com.lb

With respect to the geographic distribution of the employed labor force and among the Lebanese six administrative divisions, Mount Lebanon seems to attract most of the employed labor force, around 474,000 or 44% of the employed labor force given the large number of companies operating in it, whereas Nabatieh seems to be the least attractive employment site with the number of employees reaching 55,000. Following Mount Lebanon, North Lebanon is the second with the number of employees counting around 193,700 or 18% of the employed labor force. On the other hand the nation's capital with its high potential for international and local business attracts 12% of the employed labor force and the nation's agricultural site, the Bekaa, attracts 11%.

A breakdown of the labor force by sector (Table 3.11) perpetually shows the pre-eminence of the service sector emphasizing the previously stated service sector SME contribution. As many as 41 to 46% of the working population is employed in this sector, almost twice as much as that of the trade sector that employs only 23%. The SMEs in the industrial, construction, and agricultural sectors altogether employ around 36%. The female workers form the majority of the employees in the service sector SMEs (61.8%) and they almost equate the number of males in the industrial sector, but fall below the males in the remaining sectors.

Table 3.11 – Labor Force Employment by Sector and Gender (%)

	Male	Female	Total
Services	35.7	61.8	40.7
Commerce	24.4	18.3	23.3
Industry	15.5	13.3	15.1
Construction	14.2	0.9	11.6
Agriculture	10.2	5.7	9.3
Total	100	100	100

Source: Central Administration of Statistics (CAS), 2004, www.databank.com.lb

3.3 Business Setting

3.3.1 Infrastructure

The formerly well developed infrastructure of the nation acted as a regional entrepot and financial center before the start of the civil war. It suffered from severe damages and did not regain its former status until the mid nineties. An overview of certain influential sectors such as energy, telecommunications, and transportation provide an insight about the business environment surrounding the enterprises in Lebanon.

3.3.1.1 Energy

Beginning with the power sector and with the absence of any fossil fuel resources and the non-operative status of the two state-owned refineries of Tripoli and Zahrani, the Lebanese economic sectors rely heavily on the local modest hydroelectric resources alongside the imports from Syria for around 200 megawatts. Thus, the primary energy needs of the economic sectors in Lebanon are met with imports of petroleum products, which according to Ministry of Finance reached 4.4 million TOE (tons of oil equivalent) in 2000.

The state owned monopoly of the Lebanese energy sector through Electricité du Liban (EDL) has been in a critical situation since the civil war and continues as such though the causes have changed. Even though the power sector sustained the severe physical damage to its production, transmission, and distribution facilities during the civil war, its ability to survive the current financial losses due to low tariffs, high technical and non-technical losses, widespread illegal connections, and loss of control over commercial operations is highly questionable. Despite this fact EDL has been regaining control over its operations since 1996 through successive corrective measures such as the rehabilitation of existing plants and the increase of fees in line with measures addressing the billing and collection issues.

Even though the facts stated above suggest that energy as an important resource to SME growth and development acts as a key constraint to private sector growth and development, measures other than those taken to rectify the dramatic situation of the state owned monopoly tend to fade down the constraint posed by energy on SMEs. Among such measures one could note the rehabilitation program undertaken by the Ministry of Energy and Water and the search for source supplies of oil for the nation's two gas turbine stations.

The rehabilitation program as of 1993 targeted the power plants at a cost of USD 410 million. It consisted of repairing and reconstructing the existing generation, transmission, and distribution facilities leading to a 1,250 megawatts production capacity. Starting 1996 another program at a USD 1 billion cost was launched to modernize the electricity sector through the installation of four gas turbines in Sour and

Baalbeck, each with a capacity of 140 megawatts (Ministry of Finance's Yearly Report 2001).

The existence of a constraint posed on the growth and development of SMEs through the energy sector is further highlighted from the figures above. The numbers point out two issues: first, the restriction of SME production and growth abilities due to the limited supply of energy resource locally; second, the linkage of SME costs of production to the availability of foreign supply of energy as well as the energy prices in those markets.

3.3.1.2 Telecommunications

As another crucial infrastructure element shaping up the business environment, the telecommunications sector in turn experienced expansion, rehabilitation, and upgrading as of 1993.

In fact the fixed line system rehabilitation that commenced in November 1993 and the two mobile phone networks initially established under Built-Operate-Transfer contracts equip the business environment with 800,000 installed capacities of 1,800,000 digital fixed lines and 700,000 mobile ones. In addition, Lebanon engulfs 6,998 internet hosts in 2004 for 400,000 internet users in 2002 in addition to 678,800 main telephone lines and 775,100 mobile lines. Such a strength defined in terms of supply of

telecommunication networks is nevertheless faced with a weakness in terms of cost that remains the highest in the region.

3.3.1.3 Transportation

3.3.2.1 Commercial Banks

Even though the development of the road network had not kept pace with the growth of the economy, the business environment in general and the SMEs in particular are currently equipped with well established and maintained road network in the capital along with extensions of the coastal highway system north to Tripoli and south to Sidon and Tyre. However, this might not be the case for the SMEs located in rural areas, where the poor condition of the road network remains to create an obstacle.

As for air and sea transport, a rehabilitation project financed mainly through the European Investment Bank entails the Port of Beirut at a cost of USD 150 million though being partially implemented since 1996; and the airport almost competes world's most efficient and effective airports.

3.3.2 *Credit Access*

No of Banks	41 banks
No of Commercial banks	32 banks of which 10 international banks
No of Investment banks	9 investment banks with 11 branches
No of representative offices	18 representative offices
No of Financial institutions	28 financial institutions with 32 branches
No of Staff Employed in the sector	15,971 employees

Source: Central Bank (2005)

As a formal source of financing at the disposal of the various economic sectors in Lebanon including the SMEs, commercial banks play a major source of credit along

with SME specific programs either recently developed or on the verge of development such as the Government Credit Fund or kafalat, Microfinance Institutions, and NGO oriented international programs.

3.3.2.1 Commercial Banks

With respect to the commercial banks and their prominent role in providing the means with which SMEs can undertake and implement investment projects, Table 3.12 below indicates, there are around 61 banks in Lebanon according to Central Bank 2003 records with 809 branches disbursed over the Lebanese territories that cater to the needs of businesses in Lebanon. Of these banks 52 are of the commercial type and 9 of the investment kind that altogether employ 15,971 employees.

Table 3.12 – Banking Sector Overview			
No of Banks	61 banks		
No of Branches	809 branches		
No of Commercial banks	52 banks of which 10 international banks		
No of Investment banks	9 investment banks with 11 branches		
No of Representative offices	18 representative offices		
No of Financial institutions	28 financial institutions with 32 branches		
No of Staff Employed in the sector	15,971 employees		
Industry	Source: Central Bank (2003)		
Financial intermediaries	n.a	3.47	0.96
Agriculture	301.5	1.11	1.63
Others	n.a	3.71	2.22
Total	27,059	100.00	100.00
Source: Central Bank, www.bdl.gov.lb			

These banks are not only a major source of fund which the businesses use to access credit in the form of loans with various maturities, but also a tool in their daily operations.

The distribution of loans by sector reveals that the trade sector absorbs 44.12% of the total loans granted through 21.89% of the loan clients. While the construction and the industry sectors absorb around 16% and 14% of the granted loans respectively, financial intermediaries and agriculture take up the least (3.7% and 1.11%). Such a distinction among the sectors could be explained by the nature of business and its requirements on one hand and the number of such clients in a given sector on the other. The leadership of the trade sector for example is justified by the continuous credit requirements related to inventory management and other trade related transactions whereas the last position of the financial intermediaries is again justified by the absence of inventory requirements for instance.

Table 3.13 – Distribution of Private Sector Loans by Sector

Sectors	Loan value (LL bn)	As % of total loans	As % of clients
Trade & services	11939,7	44.12	21.89
Construction	4588,6	16.96	3.70
Personal credits	4427,1	16.36	63.11
Industry	3860,3	14.27	6.50
Financial intermediaries	n.a	3.47	0.96
Agriculture	301,5	1.11	1.63
Others	n.a	3.71	2.22
Total	27,059	100.00	100.00

Source: Central Bank, www.bdl.gov.lb

the establishment of the SMEs via facilitating the means of getting credit source through its direct guarantee in favour of the lending bank allowing the borrower provide the bank with

Based on these promising figures that signal a booming investment atmosphere, the current study shall test the presence of any possible relationship between the credit access via the commercial banks and the investment decisions made.

At year end of 2004, Kafalat's outstanding portfolio amounted to 2515 loan guarantees with an aggregate guarantee value of LBP 204,672,487,000 (USD 137

3.3.2.2 Government Credit Fund (Kafalat) LBP 173,563,316 (USD 104 million) as per the distribution depicted in Table 3.14. The distribution by value reveals that two extreme brackets form a significant portion of the guarantees (25% of the guarantees are less than

Looking for the specific sources of credit that the SMEs have at their disposal to finance their investment decisions, this review has identified a new source of financial access targeting the SMEs and assisting them access commercial bank funding. This tool came in the form of a Lebanese financial company owned by the National Institute for the Guarantee of Deposits (75%) and fifty Lebanese Banks (25%) and equipped with a public concern that provides loan guarantees based on business plans and feasibility studies validating the viability of the proposed business activity. The Kafalat targets SMEs mainly in the industrial, agricultural, tourism, traditional crafts, and high technology economic sectors (www.kafalat.com.lb).

Source: Kafalat Loan Guarantee Statistics 2004, www.kafalat.com.lb

Under this initiative, SMEs would enjoy interest rate subsidies financed by the Lebanese treasury, administered by the Central Bank of Lebanon, and set up to mitigate the crowding out effect of the high interest rates in Lebanon as induced by public sector borrowing noted earlier. In effect, the government has taken the initiative to encourage

the establishment of the SMEs via facilitating the means of getting credit source through its direct guarantee in favour of the lending bank allowing the borrower provide the bank with less collateral on one hand and through its subsidy on interest allowing SMEs access bank funding at a reasonable cost on the other (www.kafalat.com.lb).

Sector	Guarantees	%
Industry	1111	43.4
Agriculture	965	37.7
Trade	315	12.2
Tourism	315	12.2

At year end of 2004, Kafalat’s outstanding portfolio amounted to 2515 loan guarantees with an aggregate guarantee value of LBP 206,672,487,000 (USD 137 million) and an aggregate loans’ value of LBP 275,563,316 (USD 184 million) as per the distribution depicted in Table 3.14. The distribution by value reveals that two extreme brackets form a significant portion of the guarantees (25% of the guarantees are less than LBP 50 million and 28% of the guarantees are higher than LBP 200 million) (www.kafalat.com.lb).

Table 3.14 – Distribution of Loans Guaranteed (by value) as at Year End 2004		
Bracket (in million LBP)	Number of Guarantees	%
< 50	661	25.8
50 – 75	289	11.3
75 – 100	226	8.8
100 – 150	384	15.0
150 – 200	274	10.7
>200	726	28.4
Source: Kafalat Loan Guarantee Statistics 2004, www.kafalat.com.lb		

Table 3.15 shows that the industrial sector attracted most of the guaranteed loans (1111 loans) followed by the agriculture and tourism sectors (965 and 315 loans respectively).

**Table 3.15 – Distribution of Loans Guaranteed (by economic sector)
as at Year End 2004**

Economic Sector	Number of Guarantees	%
Industry	1111	43.4
Agriculture	965	37.7
Traditional Crafts	95	3.71
Tourism	315	12.3
High Technology	74	2.89
Total	2560	

Source: Kafalat Loan Guarantee Statistics 2004, www.kafalat.com.lb

The most active SMEs in this respect were those in Mount Lebanon (48.1% of the loans) followed by those in Bekaa (17.8% of the loans) while those in Beirut attracted only 7.9% of the loans due to the fewer number of SMEs within its borders as stated in an earlier section.

Heavy load of documentation requirements are necessary at Kafalat which might signal lesser degree of attractiveness as a financial source for SMEs. Among such requirements one could note those required from Kafalat after the bank approval and those required by the bank for file study. While the Kafalat requires feasibility study and illustrative diagrams, copy of the loan contract and repayment schedule, copy of the guarantee documents certified by bank, and copy of life and fire insurance; the banks requires commercial register registration certificate, commercial record, company charter, identifications of applicant and of signatory party, list of property owned by applicant, with certified copy of the listed real estate, field visit reports by the bank, balance sheet for the past three years, list of banks with which the company has

dealings, official waiver, and clearance from the Central Bank regarding risk and bounced checks (InfoPro Search 2004, www.databank.com.lb).

Founded on these detailed application requirements, this project shall try to discover the potential impact that such factors have on the choice of this credit source by the SMEs.

3.3.2.3 Microfinance Institutions

Regarding the microfinance institutions in Lebanon, the list published by the Association of Banks in Lebanon for the year 2004 revealed 9 such institutions in service of the Lebanese SMEs. These institutions offer loans either in Lebanese Pounds or US Dollars ranging between LBP 3,750,000 and LBP 6,000,000 or between USD 1,000 to USD 3,000 with maturities ranging over 4 months and 4 years. As for the annual interest rates they vary from 0% to 28% marginal accompanied with variable subsidy rates mostly above 20% (Association of Lebanese Banks, 2004, www.databank.com.lb) At the absence of any figures regarding credit granted by microfinance institutions to SMEs, among the 54 SMEs interviewed none has applied either.

3.3.2.4 Other Credit Access Sources

In addition to the commercial banks, kafalat, and microfinance institutions, SMEs have the chance of using NGO programs if fit with requirements in addition to their suppliers' services and some informal sources as family and friends though statistics on the SME activity within these sources are not found.

3.4 The Legal Framework

Driven by the objective of developing descriptive hypotheses around the influential factors on registration patterns, the underlying section of the chapter shall explore the legal framework through looking into the specific laws and regulations governing the operations of the SMEs in Lebanon as well as the registration requirements imposed on them.

The legal framework surrounding the SMEs in Lebanon is derived from the Constitution and a set of well-established laws enacted to guarantee the private ownership of property, the free flow of funds and currencies in and out of the country, and the freedom of contract between parties. The laws in direct relation with the business environment are the Commercial Code, the Code of Money and Credit, and the legislative decrees issued in 1942, 1963, and 1967 respectively. These laws and decrees

govern and handle the commercial agency representation, the stock exchange, the limited liability companies, and the business concerns and the New Code of Civil Procedure promulgated in 1983 (Ministry of Justice website, www.justice.gov.lb).

While there are no specific legal forms exclusively applicable to SMEs, the

various Recently an active legislative reform movement headlines the legal framework of the business environment through the Parliament on one hand and the special Central Bank committees on the other in cooperation with the Ministry of Justice in an effort to modernize Lebanese laws especially in the areas of fiduciary activities, issuance of notes and other debt securities by banks, the public placement and listing of shares along with many others. Despite such efforts, the Lebanese legislative system did not yet enact SME specific laws that define the SMEs and govern their operations.

Lebanese commercial law is based on a traditional civil-law system subject to

The commercial law encompasses a group of rules applied on all commercial

3.4.1 *Types of Businesses* person executing such activities and on all merchants or

persons whose profession is to conduct commercial activities. The commercial activities

can be defined as those related to the purchase, the sale, the rent, and establishment of

enterprise With respect to the definition of enterprises in Lebanon, the Lebanese

commercial law defines any enterprise as an entity made up of two elements: repetition

of an activity and the presence of a professional organization aiming to fulfill it. Thus,

the commercial enterprises require the presence of intention, profit, speculation, and

capital. Any person enjoying full legal age can exercise commercial activities or form

an enterprise which will be considered a commercial establishment or can run his/her

activities with others forming a partnership or a company based on a contract whereby

issue legislative decrees enjoying the same power or even nullifying and amending the

the company enjoys a legal personality (Ministry of Justice website, www.justice.gov.lb).

While there are no specific legal forms exclusively applicable to SMEs, the various legal forms of enterprises that an SME could be established under are: commercial establishments, unlimited partnerships, limited liability companies, unlimited partnerships, joint stock companies, and individual merchants.

3.4.2 The Commercial Law and the Legislative Decrees

The commercial law encompasses a group of rules applied on all commercial activities regardless of the person executing such activities and on all merchants or persons whose profession is to conduct commercial activities. The commercial activities can be defined as those related to the purchase, the sale, the rent, and establishment of enterprises with the intention of making a profit. The commercial law leaves civil activities or companies outside its scope (Ministry of Justice website, www.justice.gov.lb).

Unlike the laws that are enacted and issued by the Parliament, the legislative decrees are issued by the government or the Cabinet. Despite the fact that decrees cannot contradict or nullify the laws, in a given particular situation the government may issue legislative decrees enjoying the same power or even nullifying and amending the

laws. However, such a special situation would happen only when the parliament submits some of its legislative powers to the government for a limited time period and specifies the topics in advance. However after the issuance of such decrees by the government, the Parliament would still have the right to convene and nullify such legislative decrees (Ministry of Justice website, www.justice.gov.lb).

Among the factors leading to the development of an ambiguous legal framework for the SMEs to note would be the dispersion of the articles governing their operations over a number of codes and legislative decrees which would in turn create reluctance among these SMEs to perform registrations. While the enterprises established as individual merchants, for example, are subject to articles 2 to 39 of the commercial code section 1, those formed as commercial establishments are subject to the legislative decree dated 11th of July 1967. Moreover and where articles 46 to 76 in section 2 of the commercial code govern the unlimited liability partnerships, articles 77 to 237 govern the joint stock companies, and articles 226 to 237 govern the limited partnerships. On the other hand, it is the legislative decree 35 dated 5th of August 1976 that governs the limited liability companies. Even though such dispersion might be related to the enacting of such laws at different instances driven by their necessity, they nevertheless consume time, energy, and money (Ministry of Justice website, www.justice.gov.lb).

The first fact to note in this respect would be the presence of two registers. While any individual or juristic entity, national or foreign, engaging in commercial activities in Lebanon, either directly or through intermediaries or branches is required to

register in the “General Commercial Register”, the commercial establishments are required to do so in a “Special Commercial Register”. In addition, further classifications are made at the commercial registry whereby the commercial registry requires the individual merchants, limited liability companies, limited partnerships, unlimited partnerships, limited partnerships by shares, and joint stock companies to be registered in a record known as “Public Record”; and the commercial establishments in a separate record (Ministry of Justice website, www.justice.gov.lb).

Even though such registration requirements are applicable to all kinds of SMEs, the fact that the details of the requirements are set in a wide variety of legislative decrees and in the commercial code further contributes to the ambiguity of the registration requirements (Ministry of Justice website, www.justice.gov.lb).

The owners of businesses in the form of commercial establishment, for instance, find their registration requirements in article 4 of the Legislative Decree No. 11/1967 that obliges them submit to the Court of the First Instance Chamber an application for the registration of the establishment including his/her name, the number of commercial register, his/her domicile, the commercial name of the establishment, the type of business, and the incorporeal and corporeal elements of the establishment along with the name of the authorized manager. On the other hand, the partners of a partnership locate such requirements in articles 26, 48, and 49 of the commercial code that require them submit the application including their names, their places and dates of birth, their nationality, the company's name and type, the form and legal nature, the place of the headquarters and the branches, the name of the manager and his/her powers

as well as the capital and the shares. Similarly, the individual merchants in turn have to refer to article 24 of the commercial code that requires them register in a commercial register located within the Court of the First Instance Chamber by submitting to the court his/her full name, the commercial or used name, his/her place and date of birth, his/her nationality, the type of business, the address of the head office, and the name of the representative or the authorized manager (Ministry of Justice website, www.justice.gov.lb).

3.4.3 The Labor Law and the National Social Security Fund (NSSF) Law

It would be worth to note that no obligation is set in the commercial code regarding the applicant enterprise’s disclosure of the number of employees working for him/her, though no obligation bans him/her from declaring the number.

The Commercial Registry records accessed on June 30, 2005 show that the number of the registered companies represent a relatively small fraction of the firms operating in Lebanon (Table 3.16). In fact, the numbers reveal that around 94,959 firms are registered in both records of Beirut, 93,619 in Mount Lebanon, 22,916 in North, 22,343 in South, 10,119 in Nabatieh, and 5,814 in Bekaa.

Table 3.16 Commercial Registry Registrations

	Public Record	Commercial Establishments
Beirut	82,639	12,320
Mount Lebanon	79,007	14,612
North	16,870	6,046
South	17,794	4,549
Nabatieh	9,258	861
Bekaa	4,663	1,152

Source: Commercial Registry, 2005

3.4.3 The National Social Security Fund (NSSF) established by a 1963 decree, in

turn out Noting that these figures serve to further emphasize the influence of the registration requirements on the registration patterns of the SMEs, one particular interest would be to descriptively test the validity of this influence based on the surveyed SMEs under this project.

allows the employees to ask for end-of-service benefits at any time even though the official retirement age is 64 or for early retirement and end-of-service compensation at

3.4.3 *The Labor Law and the National Social Security Fund (NSSF) Law*

family, transportation, and educational allowances where such benefits are attached to the husbands' rather than to the wives' salaries on one hand. Furthermore, married

employ Another law of particular interest to the current project given its relation to the employment decisions is the Labor Law and the National Social Security Fund (NSSF) laws that are also applied on all enterprises whether commercial or non-commercial, SME or not, regardless of the number of employees. In fact, the enterprise size in terms of employees has no effect on the application of the Labor Law and the NSSF law.

with fewer than 10 employees have to submit their report every three months while

larger As stated in an earlier section, SMEs are affected by two basic laws and a

judicial committee under which the Lebanese labor market operates. Whereas the judicial committee – the Labor Arbitration Council – governs the disputes between employers and employees, the Labor Law administers the general working conditions, and the Social Security Law oversees provisions for benefits such as end-of-service compensation, family allowance, sickness, maternity, and compensation for work-related accidents.

3.4.3.1 The National Social Security Fund (NSSF) established by a 1963 decree, in turn outlines the relationship between SMEs and their employees. The NSSF provides employees with national insurance coverage for sickness and maternity care, family allowance, end-of-service pensions, and work-related accidents and diseases whereby any employee or laborer from any sector is eligible to enroll in the program. The fund allows the employees to ask for end-of-service benefits at any time even though the official retirement age is 64 or for early retirement and end-of-service compensation at the age of 60. One significant point to note under the NSSF regulations concerns the family, transportation, and educational allowances where such benefits are attached to the husbands' rather than to the wives' salaries on one hand. Furthermore, married employees registered with the NSSF receive a 20% of monthly salary spouse allowance and an additional 11% of monthly salary for every child calculated as a percentage of the minimum wage.

The law requires all SMEs to contribute to the NSSF fund. Small companies with fewer than 10 employees have to submit their report every three months while larger enterprises must submit their reports on a monthly basis. Fines for infringement of these rules range from LL 100,000 to LBP 1.5 million for each offence to be doubled for subsequent offences.

It could be noted from the above discussion that the offering of benefits to the employees is not an option, but rather an obligation on part of the SMEs as specified in the above laws and codes. Given this fact as well as the interest of the subject paper to

3.4.3.1 The Labor or Employment Contracts

The Labor Law was promulgated on 23rd of September 1946 and amended later on by several legislative decrees. As a branch of the private law, the Labor Law interferes with the SME operations as it tends to organize the relation between the employers and employees; to regulate the employment of women and children; to standardize the duration of daily working hours; to administer the annual vacations, the sick leaves, the maternity leaves, and the bereavement leaves; and to control wages and benefits (Ministry of Labor website, www.mol.gov.lb).

Article 624 of the code of obligations and contracts in turn concerns the SMEs through its definition of the employment contract as a contract according to which one of the partners surrenders his/her work to the service and under the administration of the other party in return of a specified wage to be paid by that party. A contract is therefore named an employment contract if it includes the element of legal subordination meaning that the employer can order, demand, and supervise the performance, the quality, and the time limit of the work performed by the employee, which according to the Labor Law could be either written or oral (Ministry of Labor website, www.mol.gov.lb).

It could be noted from the above discussion that the offering of benefits to the employees is not an option, but rather an obligation on part of the SMEs as specified in the above laws and codes. Given this fact as well as the interest of the subject paper to

explore the willingness of the SMEs in offering such benefits to their employees and to assess the impact of such benefits on the employee performance at the workplace, the current section shall look for any technical peculiarities about these benefits that might discourage the SMEs from offering them (Ministry of Labor website, www.mol.gov.lb).

by the Labor Law and Code of Obligations (Ministry of Labor website,

www.mol.gov.lb)

With respect to the offering of employment contracts, the first peculiarity to note would be its adherence to two sources of law: the code of obligations and contracts that defines it and the Labor Law that governs its applications. Thus the formation of an employment contract requires not only the compatibility of an offer and an acceptance of such an offer between the parties regarding the terms of the contract formation, but also the fulfillment of registration. Hence, along with the registration fulfillment, the information requirements as well as time and money consumption, present themselves as potential unenthusiastic factors leading SMEs away from offering such a benefit (Ministry of Labor website, www.mol.gov.lb).

• The enterprise or its representative misleads the employee about the

The major peculiarity however revolves around the termination of the employment contract which lies within one of the two categories: annulation and resolution. While the annulation enjoys a retroactive effect leaving the parties involved in the employment contract in the same legal situation before the conclusion of the contract or the execution of the contract, the resolution on the other hand, does not enjoy any retroactive effect and is applied when the parties cannot reach the legal situation before the conclusion of the employment contract i.e. in case of partial execution of the contract. Such an oddity could be better understood in view of the further obligations imposed on the SME as informing the Ministry of Labor one month

in advance of such a termination and consulting with the Ministry to conduct a termination schedule taking into consideration the seniority, the specialty, the age and the social status of employees whose contracts are to be terminated even if the termination was due to technical or unforeseen economical circumstances as permitted by the Labor Law and Code of Obligations (Ministry of Labor website, www.mol.gov.lb).

Another aspect of the employment contracts entails the compensation requirements in case of terminations that might serve as an incentive to both the employees and the employers. Since the Labor Law specifies some circumstances where an employee can resolve the employment contract without paying any compensation to the enterprise, one would expect a positive influence of such a benefit on the employee performance as that tends to provide some sort of security regarding the occupied working position. Such circumstances prevail if:

- The enterprise or its representative misleads the employee about the working conditions where in such a case this right could be exercised within a period of thirty days after the execution of the employment contract,
- The enterprise did not comply with his/her obligations,
- The enterprise or its representative committed an unethical crime against the employee or any of his/her family members, and
- The enterprise employer or its representative committed a violent act against the employee.

(Ministry of Labor website, www.mol.gov.lb)

Similarly the Law specifies conditions that give the enterprise the right to resolve the employment contract without paying any compensation to the employee. Despite the fact that this might be of negative influence on the employee performance, it may also act as a motivational tool to enhance performance and avoid the occurrence of circumstances that would give the employer use this right. Such a right would be exercised if:

- The employee impersonated a false nationality,
- The resolution occurred during the trial period of three months,
- The employee committed an intentional act of delinquency to cause damage to the employer's interest where in such a case the employer must notify the Ministry of Labor within a period not exceeding three days from confirming its occurrence,
- The employee violated the internal statutes three times in a given year despite the written warnings,
- The employee was absent, without any legal excuse, for more than 15 days in one year or for seven consecutive days,
- The employee attacked the manager or the employer at the workplace, and
- The employee was imprisoned for one year after committing a fallacy in the workplace.

(Ministry of Labor website, www.mol.gov.lb)

In principle, the employment contracts can be either with an undetermined period or with a determined period. All such contracts can be terminated upon the mutual consent of the parties involved after notifying the other party within a time frame depending on the employment term. Otherwise, the party failing to notify would be obliged to pay a compensation of notification. If it happens that the enterprise is the one abusing this right, then the penalty would range from a two months' to twelve months' salary of the employee. On the other hand, if the abuse comes from the employee, then the penalty ranges from a month to four months. The abused party has the right to file a lawsuit before the Labor Arbitration Council in a period of one month from the date of his/her notification of the resolution. The Council should issue a verdict in a period not exceeding the three months (Ministry of Labor website, www.mol.gov.lb).

The Labor Code specifies certain cases as abusive oscillation committed by the employer. These cases are:

- For an unaccepted reason which is not related to the employee capacity or his/her conduct or his/her management or his/her work performance in the enterprise,
- If the employee joined a union or exercised a justified union action within the rules of the law,
- If the employee was elected to run an office within the enterprise,
- If the employee filed a lawsuit, in good faith, in the limits of the law for its application, and

- For practicing personal and public rights in the enterprise or if he/she was sentenced for any of the crimes listed in article 344 of the penal code.

In case the contract has a determined effective period and was resolved by any party prior to the due date, the complaining party must prove that the other party committed a misconduct or error by the act of resolution where in such a case the compensation is estimated by the court without any limits (Ministry of Labor website, www.mol.gov.lb).

Having in mind all these peculiarities about the offering of the employment contracts as a benefit to the employees, the current subject shall explore the willingness of the SMEs in this area and descriptively test the prominent impact of such a benefit on employee performance.

3.4.3.2 The National Social Security Fund (NSSF) Requirements

The registration at the NSSF is crucial because all official departments require a financial clearance issued by the NSSF to the order of the enterprise stating that all financial obligations towards the NSSF are settled. Such a financial clearance is crucial for the following scenarios:

- Registration at the Commercial Register,

- Registration at the Chamber of Commerce and Industry,
 - Real estate transactions concerning the dissolution and the liquidation of the partnerships and enterprises,
 - Acquisition of import and export licenses,
 - Customs transactions,
 - Participation in public bids, offers, and agreements with public institutions and municipalities,
 - Commercial, industrial, agricultural, and touristic letters of credit offered by the public sector, and
 - Aid transactions offered by the public sector
- (Ministry of Labor website, www.mol.gov.lb)

Despite these incentives urging the SMEs register with the NSSF, the registration and annual declaration obligations set forth by the NSSF law might pull the balance towards non-registration. Indeed, the NSSF law obliges the enterprise to submit an annual declaration concerning the status of the enterprise and the employees along with the number of employees whereby any violation of such an obligation would result in a financial penalty (Ministry of Labor website, www.mol.gov.lb).

Registration of any enterprise at the Commercial Registry is one of the prerequisites for the NSSF and the Ministry of Labor registrations. Article 9 of the statutes of application and registration that comes as an annex to the NSSF law, states that the SME must keep a copy of the special record and register the names of the employees in the enterprise. The NSSF registration requires the following documents:

- An application form issued by the NSSF administration,
- A letter of registration issued by the Commercial Register,
- A copy of the contract in case of companies,
- An identification, and
- The Statutes of the enterprise if the number of the employees exceeds fifteen.

(Ministry of Labor website, www.mol.gov.lb)

3.4.3.3 A financial penalty would be inflicted on the enterprise failing to register or delaying the registration. Given this fact however, the labor law does not limit the time period for concluding such a registration though on practical grounds such a registration takes place in three days.

3.4.3.4 Among the obligations specified in the labor law, the formation and the declaration of statutes for the enterprise is one to mention. At this point two scenarios are noted in the same law. Whereas article 9 necessitates the declaration of the statutes of the enterprise in cases where the number of employees exceeds twenty five, article 66 of the same law obliges the formation of such a statute but omits its declaration requirement when the number of the employees exceeds fifteen (Ministry of Labor website, www.mol.gov.lb).

After the registration at the NSSF, the enterprise must submit an application to the Employment Department of the Ministry of Labor stating the number of employees and including:

- Letter from the Directorate of Statistics at the NSSF concerning the number of employees,
 - Letter from the Commercial Register,
 - Copy of the annual declaration for NSSF, and
 - Identification.
- (Ministry of Labor website, www.mol.gov.lb).

3.4.3.3 NSSF Statistics

Year	Male	Female
1999	223,281	113,878
2000	232,086	118,578

Statistics from the NSSF indicate a low percentage of workforce being covered by NSSF contributions. The number of companies registered with NSSF in 2001 is 38,890 companies with 355,646 employees in total enrolled for health and maternity coverage out of around 1.3 million workers for the same period.

Concerning the number of employees registered at NSSF, the Services and Government sectors seems to have the largest number of employees registered – 152,262 in 2000 and 153, 591 in 2001. Following the Government sector employees, around 97,000 of the Trade, Financial, & Real Estate sector employees in 2000 appear to have registered and benefited from NSSF contributions being slightly lower than the number of those in the sector that were registered in 2001 which stands at around 100,000. At the other extreme, the employees of the agricultural and fisheries sector registered with the NSSF are the least among the other sectors with their total being

1,632 in 2000 and 1,681 in 2001 to be followed by the doctors, utilities, and construction workers.

Looking at these figures segmented by gender, Table 3.17 on the following page presents a list for the period 1999-2001. The figures suggest a similar pattern over the three year pattern with the number of female employees registered at NSSF being slightly more or less than 50% of the male employees.

Table 3.17 – NSSF Registration By Gender		
Year	Male	Female
1999	223,281	113,878
2000	232,086	118,578
2001	234,984	120,662
Source: National Social Security Fund, 2001		

As for the companies registered with NSSF and their locations, Table 3.18 beneath reveals that the highest density of the registered companies is in the Metn region of Mount Lebanon with 44,418 companies registered in comparison with the Tyre region of South Lebanon that has the lowest density of around 4,900 companies. While 116,060 companies are found registered with NSSF in Mount Lebanon and 105,613 in Beirut, the remaining three districts include 38,702 registered companies.

The survey also suggests the possibility of registration reluctance among the SMEs though the existence of non-registration fines might represent a trade off. Thus the study shall descriptively test the potential influence of such an intense registration process on the registration patterns of the SMEs with both the NSSF and the Ministry of Labor.

Table 3.18 – Main Locations for Registered Companies

Mount Lebanon	No of Employees
Metn apart from Baabda	46,762
Baabda and district	44,418
Kesrouan	24,880
Beirut	
Ras Beirut	37,595
Mousseitbeh	18,076
Mazraa	18,486
Ashrafieh	31,456
South	
Saida and district	11,152
Tyre	4,938
North	
Tripoli and district	10,515
Bekaa	
Zahlé and district	12,097
Up to 100,000 of these companies are still registered but no longer functional	
Source: National Social Security Fund (NSSF), 2001	

A deeper look at the NSSF registration figures reveals that companies registered with NSSF with a size of nine employees and less represent 25% of those registered with a size of ten employees and more. While Mount Lebanon reports the largest number of registered companies under the nine employees or less size category (31,902 companies), Beirut reports the largest number of registered companies under the ten or more employees size category (126,835 companies).

These figures along with the intense set of registration requirements might suggest a possibility of registration reluctance among the SMEs though the existence of non-registration fines might represent a trade off. Thus the study shall descriptively test the potential influence of such an intense registration process on the registration patterns of the SMEs with both the NSSF and the Ministry of Labor.

3.5 Financial Framework

Driven by the objective of developing descriptive hypotheses around the influential factors on the registration patterns with financial authorities – income tax and value added tax, the underlying section of the chapter shall explore the financial framework by looking into the specific laws and regulations making up the taxation scheme for the SMEs in Lebanon as well as the registration requirements imposed on them.

As a unitary country, the power of levying taxes lies in the Parliament. At the absence of any substantive reference to taxation in the Lebanese constitution, the majority of the tax laws come as inherent provisions in the budget laws that either amend existing taxes or create new ones. Accordingly a series of direct and indirect taxes have been enacted by the Lebanese Parliament since the 1950s applicable on all enterprises without any SME specific taxes. While the direct tax in the form of income tax covers various sources of profits as income from holdings and offshore companies as well as income from financial instruments, inheritance, and built up property; the indirect taxes include the Value Added Tax, the stamps duty, the excise taxes, the municipal fees, and the customs duties (Guide to Lebanon Tax Law Research, 2004, www.finance.gov.lb).

3.5.1 *Income Tax*

By virtue of the income tax law, all natural and juridical persons are required to pass through a sequence of stages: registration with the tax authorities at the start up of the business, periodic declaration of taxable income, and subsequent payment of tax obligations. Thus at a single glance one would easily notice the obstacles or the constraints set forward by these requirements hindering the registration of the SMEs with this authority.

3.5.1.1 Registration

To counteract the negative influence of the severe registration and declaration requirements, the income tax law incorporates fines applicable to non-respondent enterprises. As per the article 115 of the income tax law amended as per article 29 of the Budget Law of the year 1997, enterprises are obliged to inform the Ministry of Finance or Treasury about the nature of the business to be established on the Lebanese territories within a period of two months from the business commencement date. Any failure to abide by this deadline compels a fine on the established SME extending from LBP 500,000 to LBP 3 million. This fine varies depending on the legal status of the enterprise; while joint stock companies for instance face a fine of LBP 3 million, the

limited liability companies and the limited partnerships by share face LBP 2 million (Guide to Business Establishment, Ministry of Finance, 2002, www.finance.gov.lb).

Registration requirements entail all sorts of enterprise – joint stock companies, limited liability companies, limited partnerships, limited partnerships by share, unlimited partnerships, professionals, and entrepreneurs – that perform any form of activity whether that is of commercial or non commercial nature as well as of industrial or non industrial nature. Thus the taxpayers extend from owners of mini markets, car repair garages to lawyers, doctors, engineers, etc. The entities exempted from registration requirement comprise: educational institutions, hospitals, charitable organizations, consumer associations, cooperatives, trade unions, agricultural investors, and local air/sea transport companies, etc. which by virtue of the nature of their operations are exempted from any registrations (Guide to Business Establishment, Ministry of Finance, 2002, www.finance.gov.lb).

Despite the existence of the fining system, SMEs might face at the very start of their establishment a set of discouraging factors associated with the registration procedure that requires time, money, and information to comply with. Indeed, the procedure requires the submission of legal documents at any of the income tax units of the Treasury on the Lebanese territories depending on the location of the SME. Some of the documents are:

- A copy of the SME charter for corporations and of the partnership contract for partnerships,

- A copy of the registration certificate at the Commercial Registry whether corporations, partnerships, or entrepreneurs,
- A copy of the rent contract or landlord permit or title of deeds for corporations, partnerships, or entrepreneurs,
- A copy of profession permit or syndicate registration identification for professionals and entrepreneurs

(Guide to Business Establishment, Ministry of Finance, 2002,

www.finance.gov.lb).

3.5.1.2 Declaration

During the regular course of the business, SMEs and other enterprises, whether corporations or partnerships, keep on facing similar challenges as those faced at their establishment whereby they are required to make periodic declarations of their income or profit for each fiscal year. In addition to the documentary requirements, the declarations at this stage add another constraint – the deadlines for submission. While the deadline calls for corporations and partnerships to submit their declarations regarding the previous year's operations during the period extending from the first of January to the thirty-first of May each year, it calls professionals and entrepreneurs to do so within the period extending from the first of January and the thirty first of March each year. In acknowledgement of different fiscal years applied by different entities, the income tax law gives a grace period of five months for corporations and partnerships

and three months for professionals and entrepreneurs to abide by declaration requirements. Such a deadline excludes financial income as dividends and interest, where in such a case declarations are to be made during the month following the month of their occurrence (Guide to Income Tax Declaration for Corporations and Guide to Income Tax Declaration for Partnerships, Ministry of Finance, 2002, www.finance.gov.lb).

Such declarations, which would be later examined by the tax authorities, could be submitted at any of the income tax units of the treasury in the various districts of the nation. In an attempt to overcome the reluctance of taxpayers from meeting such a requirement, the law dictates a fine of 10% on the total tax value for each month of delay with the ceiling of such a fine being the tax value and the floor, the amount of LBP 500,000 for regular income. As for financial income, the fine is applied at a lower rate of 3% per month (Guide to Income Tax Declaration for Corporations and Guide to Income Tax Declaration for Partnerships, Ministry of Finance, 2002, www.finance.gov.lb).

3.5.1.3 Payment, Rates, and Taxable Income

as follows:

3.5.1.3.1 Taxes on All Entities

- interest, personnel, general and administrative costs;
- taxes and duties incurred;

The income tax law asks taxpaying SMEs to meet their tax obligations in advance and upon the submission of their declarations. At this stage, a positive note would be the associated with the opportunity of making the payments at any of the income tax units of the Treasury or through any branch of banks on the Lebanese territories either in cash or in checks.

The basis for calculating the taxable income or the tax base in turn creates

Similar to the fine imposed on the delays in submitting the declarations, a 2% of the total tax value is applied as a fine for each month of delay in meeting the payment obligations. As for the applicable tax rates, a range of 4% to 21% is established by the income tax authorities. Such rates are applied on the taxable income after deducting all charges necessary to maintain and produce profits. The rates are progressive in nature with a minimum of 4% being applied on taxable profits falling short of LBP 9 million and a maximum of 21% on profits exceeding LBP 104 million. Regardless of such a breakdown, however, corporations and limited partnerships enjoy a flat rate of 15% income tax rate on their business income. Thus, this would be considered as taxation feature setting SMEs apart from others as their taxable income would relatively be low given their size (Summary of the Tax Structure and Changes introduced from 1999 to present, Ministry of Finance, 2002, www.finance.gov.lb).

The deductions permitted by the income tax law could in turn be summarized as follows:

- cost of goods and services necessary for business conduct;
- interest, personnel, general and administrative costs;
- taxes and duties incurred;
- depreciation of fixed assets, provisions, gifts, donations;
- bad debts, family deductions.

(Summary of the Tax Structure and Changes introduced from 1999 to present, Ministry of Finance, 2002, www.finance.gov.lb).

The basis for calculating the taxable income or the tax base in turn creates more than one complication for the SMEs. The first relates to the selection of the appropriate method which depends on the legal status of the SME and its size. The second on the other hand relates to the calculation of the taxable income. With respect to the appropriate method, there are three different methods: the real profit method, the lump-sum profit method, and the estimated profit method. While the real profit method is applicable to SMEs with more than four employees; the lump-sum profit method is applicable to insurance companies, transport companies, and oil refineries; and the estimated profit method is applicable to SMEs with less than four employees. As for the calculation approach and whereas the real profit method involves first, adjustment of accounting profit to obtain an income measure based on tax rules, and second, a deduction of the prior years' losses; the lump sum approach treats the taxable income as a percentage of sales where the percentages are determined annually by the Treasury based on sales figures reported by the taxpayer; the estimated profit method establishes

the taxable income based on a field audit of the taxpayer carried out by the Treasury (The Lebanese Income Tax System, Ministry of Finance, 2002, www.finance.gov.lb).

3.5.1.3.2 Taxes on Salaries, Wages, and Benefits

Regarding taxes on salaries, wages, and benefits, the income tax law appoints the employer or the enterprise to withhold the tax on behalf of the employee with the exception of those individuals who are employed for more than one employer in a given year in which case the employee files his/her own tax return. The taxable income is determined as the gross income less expenses and family abatements. It is taxed progressively as shown in where the rates increase from 2% on earnings of LBP 6 million or less to 20% on earnings of more than LBP 120 million (The Lebanese Income Tax System, Ministry of Finance, 2002, www.finance.gov.lb).

3.5.1.3.3 Taxes on Passive Investment Income

3.5.2. Value Added Tax (VAT)

3.5.2.1 General Overview

The main types of income under this category are dividends, interest, and any payments that can be considered as substitutes for interest and dividends with the exception of interest on current bank accounts and interest on Lebanese government

treasury bills (The Lebanese Income Tax System, Ministry of Finance, 2002, www.finance.gov.lb).

What concerns the treatment of dividend income, a distinction is made between those earned during the course of a business or not. In the former case they are treated as business income similar to the income from disposal or revaluation of fixed assets and are taxed at a reduced flat rate of 10% and in the latter, as income from moveable capital. In addition to such a classification, such sources of income are subject to flat rates as well and are taxed at source from the gross proceeds at a flat rate of 10%. But the distribution of dividends and branch profits by foreign companies are taxed at a distribution tax rate of 5%. In general the foreign companies are exempt from income tax liabilities on condition that they do not maintain any permanent establishment in Lebanon, derive no profits of Lebanese source from a permanent established, and do not perform a complete cycle of activity in Lebanon (Summary of the Tax Structure and Changes introduced from 1999 to present, Ministry of Finance, 2002, www.finance.gov.lb).

3.5.2 Value Added Tax (VAT)

3.5.2.1 General Overview

As part of the tax reform for the new millennium, the Lebanese government has introduced the value added tax (VAT) in the form of a law approved by the Cabinet

in mid-year 2001, ratified by the Parliament in December 5th 2001, and published in the official gazette on December 24, 2005 (www.finance.gov.lb).

The launch of VAT aimed to have more than one function. First, it tended to adapt the traditional Lebanese tax system to the new international and regional trade obligations. Whereas, the traditional tax system relied heavily on import duties in terms of customs tariffs, the implementation of bilateral trade obligations with the World Trade Organization, the European Union, and the Arab Trade Union, called for cutbacks on such tariffs. Consequently, the VAT which is based on consumption, came as an alternative source to cover up the loss in tax revenues. Second, VAT intended to contribute to a reduction in the budget deficit, to contain the soaring debt levels, and to ensure continuous economic growth as well as financial and monetary stability (www.finance.gov.lb).

As an indirect tax, VAT is a tax levied on the consumption of goods and services within the Lebanese territories, whether locally produced or imported. Hence, SMEs simply pass the VAT burden to the consumers through the increases in the prices of their marketed products and services. Despite the fact that VAT is borne by the buyer or the consumer, the wide list of exempted goods and services lessens the tax burden as it varies depending on the level of consumption and the nature of the basket of goods and services consumed (www.finance.gov.lb).

- Services offered by medical doctors and hospital fees, educational, and non-profit institutions;
- Insurance, Banking and financial services;

3.5.2.2 Taxable and Non-Taxable Activities

The first impediment standing in front of the SMEs and their decision to apply for registration or not has to do with the effort involved in identifying and classifying between taxable and non-taxable activities. The VAT law distinguishes between taxable and non-taxable activities while it defines the taxable activities as those subject to a 10% VAT and falling under either of two categories:

- Supply of movable or non-movable goods within the Lebanese territories by natural or juridical taxable persons
- Imports of goods or services, whether the importer is taxable or not.

As a further complication, the VAT law differentiates between exempt activities and zero rate activities and as such distinguishes one SME from another based on the performed activities. The exempt activities are those that are not granted any deduction right whereby the natural or juridical supplier does not collect any VAT from the supply and is not allowed to claim the VAT paid on the purchase, production, or import of the goods and services (www.finance.gov.lb). Some examples of exempt transactions are:

- Services offered by medical doctors and hospital fees, educational, and non-profit institutions;
- Insurance, Banking and financial services;

- Collective transport of persons, including transport by taxicabs;
- Supply of gold to the central bank;
- Betting, lotteries and other forms of gambling;
- Sale of built-up properties; residential letting of built properties;
- Farmers' activities related to the supply of their agricultural production.

And some of the exempt goods are:

- Livestock, poultries and raw agricultural products;
- Bread, flour, meat and fish, milk and yogurt and their derivatives, rice, borghol, vegetal oil, sugar, salt and macaroni and all different kinds of pasta and baby food;
- Books, magazines; newspapers: paper and ink for printing books, newspapers, and magazines;
- Seeds, fertilizers and animal feeds and pesticides;
- Medical equipment;
- Precious and semi precious stones, pearls, diamond, gold, silver and other precious metals;
- Gas for household consumption;
- Currency and Stamps;
- Some Leisure and sport boats owned by non Lebanese;
- Means of air transportation for goods and persons.

(www.finance.gov.lb)

The zero rated activities on the other hand, are those taxed at a rate of 0% instead of the standard 10% rate and which could be claimed as a deductible input tax whereby the natural or juridical supplier does not charge any VAT on the supply. However, such a taxable person is allowed to claim the VAT paid on the purchase, production, or the import of the goods or services necessary for his business. Some of such activities are the export activities, international transport of persons and goods, etc. (www.finance.gov.lb).

3.5.2.3 Registration Requirements

In addition to the definition specific complications, the registration requirements by the VAT authorities nevertheless pose similar challenges as those posed by the previously mentioned authorities.

In general, VAT is applied to every natural or juridical person, irrespective of legal status, who engages in an independent taxable economic activity, or zero-rated activity, and whose total turnover over four consecutive quarters excluding the value of transfer of capital asset exceeds 500 million LBP. This threshold was successively reduced since the VAT launch to LBP 300 million in 2003 and to LBP 150 million as of April 2004 (Registration Guide, Ministry of Finance, 2001).

The registration by SMEs entails the filing of a registration request to the VAT administration within two months starting from the last day of the quarter given that a previous registration at the Ministry of Finance and a registration number exist. Upon the acceptance of the registration request by the administration, the administration sends a notification about the registration number, the registration category (exporter or non-exporter), the effective date for calculating, collecting, and deducting the tax, and the submission date of VAT declaration. In case of non-acceptance, similar notification is sent stating the reasons (Registration Guide, Ministry of Finance, 2001).

3.5.2.4 Turnover Calculation

The law sets an LBP of 2 million as a penalty for failing to register and call for calculation of the tax return at the end of each calendar month and its remittance within twenty days from the end of the tax period through any of the accepted private banks in Lebanon. Nevertheless, the law allows SMEs for carrying forward any excess funds derived as a result of deductibles outweighing the tax dues, unless the SME wishes to claim in which case and at the end of any calendar year, a refund for the excess of the input deductible tax covering that year (Registration Guide, Ministry of Finance, 2001).

3.5.2.4.1 Sole Proprietorships

Among the registration obligations brought forward by the VAT registration, the following could be a summary to present:

- Collection, declaration, and payment of VAT to the Treasury within the legal deadlines
- Accurate calculation of the deductible amounts from collected VAT
- Maintenance of the accounting books and documents required from the taxpayer for a period of four years as of the end of the calendar year

- Issuance of invoices, credit and debit notes in accordance with the law (Registration Guide, Ministry of Finance, 2001).

Similar to the registrations with other institutions, the registrations with VAT authorities entails all sorts of requirements and accordingly different SMEs might weigh the benefits and costs of registrations different from each other

3.5.2.4.2 Partnerships

3.5.2.4 Turnover Calculation

As for SMEs established as partnerships, each partnership is considered as an independent entity. The third VAT specific discouraging element would be the calculation of the turnover that tends to vary according to the legal status of the enterprise – sole proprietorships, partnerships, and corporations.

3.5.2.4.1 Sole Proprietorships

Under this form of enterprises, the law distinguishes between two scenarios: a person who owns several sole proprietorships each undertaking independent and non-complementary activities; and a person who owns several sole proprietorships whereby any one of these has control over the others or where these sole proprietorships undertake similar or related activities.

3.5.2.4.3 Corporations

Accordingly, while the first scenario computes the turnover for registration purposes as the total turnover of each proprietorship alone, the second calculates it as the aggregate turnover of all businesses or professions engaged in (Registration Guide, Ministry of Finance, 2001).

3.5.2.4.2 Partnerships

As for SMEs established as partnerships, each partnership is considered as an independent entity. If the partnership has control over the decisions of other companies engaged in similar or related activities or if one of the partners in a certain partnership controls the decisions of that company and other companies engaged in similar or related activities, then the turnover taken into account for registration purposes is the aggregate turnover of these natural or juridical persons engaged in similar or related activities. These persons engage in transactions among themselves as independent entities each calculates the VAT and submits VAT returns independently to the VAT administration (Registration Guide, Ministry of Finance, 2001).

3.5.2.4.3 Corporations

Similarly, each SME as a corporation is also considered as an independent entity regarding VAT. If the corporation has control over the decisions of other companies engaged in similar or related activities or if one of the shareholders or owners of a certain corporation controls the decisions of that company and other companies in similar or related activities, then the turnover taken into account for registration purposes is the aggregate turnover of these natural or juridical persons engaged in similar or related activities. These persons engage in transactions among themselves as independent entities and each company or business calculates the VAT and submits VAT returns independently to the VAT administration (Registration Guide, Ministry of Finance, 2001).

It is apparent that the registration patterns with the VAT authorities is not confined to documentation and reporting requirements, but also to computations performed by the enterprises on a periodic basis.

Given the observations noted about the regulatory prospects of the income tax and VAT authorities, the current study shall descriptively test the degree of influence that the noted factors have on the registration patterns of the SMEs. Thus, an initial assessment of the financial framework for SMEs in Lebanon the following weaknesses and concerns:

- There appears to be too many regulatory procedures that SMEs are required to comply with
- There appears to be an indirect general recognition of the needs of the SME (e.g. not all businesses are required to register for VAT and the personal income tax system accommodates people from lower-income sectors).

Prior to moving to the details of the hypothesis development and statistical analysis, the current chapter shall discuss the research methodology applied in the treatment of the data employed in the study.

4.1 The Research Method Used

The research method utilized in this study is the descriptive one given its attempt to portray the nature of the SME environment as it exists at the time of the study and to explore the causes of particular phenomena. Thus this study utilized only primary data via questionnaire survey.

Initially, current Lebanese macroeconomic, legal, and financial factors relating to SME development were reviewed. Next, documents including assessments, studies, and figures provided by a wide range of Lebanese national organizations as well as international agencies were examined.

Through a standardized questionnaire developed in order to provide uniform information and quantify responses, fifty four owners/managers of Lebanese SMEs

CHAPTER 4

RESEARCH METHODOLOGY

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Through a standardized questionnaire developed in order to provide uniform information and quantify responses, fifty four owners/managers of Lebanese SMEs

were interviewed in order to better understand their organizations and functions as well as to determine areas subject to particular influence by micro- and macro-environmental factors.

In order to assess the SME environment, a survey-questionnaire was prepared along with five major sections starting with an introductory section highlighting

4.2 The Respondents of the Study

pendent, business location, business size, and business sector (Appendix A). The first section was designed to allow the collection of specific information building up the profile of the respondent and his/her business

For a preliminary assessment of the SME environment, the study targeted a sample of 54 enterprises based on a judgemental selection from all of the Lebanese administrative areas and economic sectors as follows: 40 distributed over the Mount Lebanon and Beirut, and the 15 equally distributed among the remaining three administrative areas – the North, the South, and the Bekaa valley.

obtaining financing over the past two years, etc. In section two, the respondents used a checklist as well to specify the factors influencing their employment decisions and to

4.3 The Instruments Used (Appendix A)

es; they also used a Likert scale to evaluate the impact of such benefits upon performance. In a similar manner, the third section of the questionnaire asked the respondents about their business investments by

The questionnaire survey through direct personal interviews was the primary statistical tool used in the research. Such a tool was selected for the research for more than one reason: first, the sensitivity of the information gathered and the need for accurate and honest responses; the sensitivity of the interviewees towards the nature of information disclosed as most of them asked for confidentiality; and the opportunity of getting additional useful information that might help built hypotheses. Having said this,

one could not but note the possibility of biased results depending on the background of the respondents.

In order to assess the SME environment, a survey-questionnaire was prepared along with five major sections starting with an introductory section highlighting background information as gender of respondent, business location, business size, and business sector (Appendix A). The first section was designed to allow the collection of specific information building up the profile of the respondent and his/her business through a set of twenty questions in the form of a checklist in most cases. The set of twenty questions gathered information not only on the age of the respondent, the educational level, the training acquisitions; but also on how and when the business was started and financed, on the changes in the workforce size, on the changes in the sales level, on the registrations with certain associations or organizations, on the efforts of obtaining financing over the past two years, etc. In section two, the respondents used a checklist as well to specify the factors influencing their employment decisions and to pinpoint the benefits provided to their employees; they also used a Likert scale to evaluate the impact of such benefits upon performance. In a similar manner, the third section of the questionnaire asked the respondents about their business investments by checking the appropriate investments made in the business through a given checklist and evaluating the factors influencing such investment decisions through a given Likert Scale with a six response choices. In section four, the respondents specified their registrations with any or all of the eight national agencies and evaluated a list of ten factors influencing their registration or non-registration decisions over a three response Likert Scale. The last section gave the respondents a chance to rate the performance of

their business over the past two years as well as express their future expectations over a four response Likert scale specifying three primary reasons backing up their response in each case.

4.4 The Instrument Validation and Administration

For validation purposes, a pilot sample of three respondents from three different economic sectors was selected. The respondents were interviewed in a time interval of around one hour and appropriate corrections and improvements were incorporated to ensure the validity of the instrument. The survey was conducted with the owners or managers of the sampled enterprises through direct interviews over the period extending from the twenty sixth of August to the twentieth of September 2005.

4.5 The Statistical Treatment of the Data

Upon the collection of all data, the Statistical Package for Social Sciences (SPSS), version 11.5, was used as an aid in the process of the statistical analysis of the data. Because of this research design, the results of the data gathered were used to assess the perceptions and opinions of owners of small and medium sized enterprises towards the environments in which they operate. Though the results of this study might

not apply to all such owners due to the small sample size and because of the largely unequal geographic distribution across different economic sectors, the study tended to target most of the economic sectors dispersed over the entire Lebanese territory.

Moreover, a cross-tabulation was used to describe the demography of all respondents. Given the qualitative nature of the gathered data, chi square (χ^2) non-parametric tests were run to pinpoint whether or not the profile variables of SMEs and SME owners set SMEs apart from each other with respect to their employment, investment, and registration patterns as well as their past performance and future expectations.

THE EXPLORATORY SURVEY RESULTS

5.1.1 Response Rate

The overall response rate of this study was 73% or 54 respondents out of 73 SME owners who were approached for a personal interview. Thus, the following numbers will be based on 54 respondents.

Furthermore, an examination of a possible relationship between these decisions on one hand and the demographics – gender, age, educational background, experience – of the SME owners, and location, size, sector, date and manner of establishment, and legal status or business type of the SME, on the other hand took place.

Therefore, this chapter will be divided into three major sections; the first one describing the demographics of the SMEs and their owners, the second describing the decisions made by the SME owners, and the third one testing the possible relationships.

5.1 Descriptive Statistics of the SMEs and their Owners

5.1.1 Response Rate

The overall response rate of this study was 75% or 54 respondents out of 72 SME owners who were approached for a personal interview. Thus, the following numbers will be based on 54 respondents.

5.1.2 SME Owner Profile (Appendix B)

Seventy seven point eight percent (77.8%) of the surveyed SME owners are males (42 respondents) while 22.2% (12 respondents) are females.

The average age of the 49 SME owners who divulged their age is 46.04 years with a standard deviation of 10.395 years. Fifty percent of the respondents were aged less than 48 years. The youngest observed age is 27 years, and the oldest is 75 years.

Seventeen of the surveyed SME owners (31.5%) have secondary school education against 21 (38.9%) who have a university degree. There is an equality in the number of those who have acquired some sort of vocational training and those who have had primary school education on one hand (4 respondents each) and those who

have continued their education for couple of years beyond the secondary (5 respondents) on the other. The 4 SME owners who have obtained technical training indicated the commercial field as their training domain for durations extending from as low as one year to as high as three years.

The majority of the SME owners were employees in another person's private business (24 respondents or 46.4%) prior to their establishment of the SME or ran another business doing a similar work (12 respondents or 22.3%). At another extreme, 9 owners had no prior professional experience since they were full time students.

5.1.3 SME Profile (Appendix C)

Seventy nine point six percent (79.6%) of the surveyed SMEs (43 respondents) were from urban areas of the various Lebanese geographic divisions and the remaining 11 SMEs (20.4%) were from rural areas.

Half of the SMEs in the sample have a workforce size of five to fifteen employees, one third of them have a size of less than four employees (18 SMEs), and the rest have a size of sixteen to forty employees (9 SMEs).

With respect to business sector, slightly less than 60% of the surveyed SMEs (59.3%) operate in the trade sector against 29.6% that function in the service sector and 11.1% in the manufacturing sector. To mention some of the activities of the SMEs, one could note the following observations:

- Trade of steel, wood, agricultural products, clothes and textile, medical and laboratory equipments;
- Accounting, auditing, consulting, printing, packaging, web site design and hosting, and telecommunications services along with hairdressing, media representation, and maintenance of equipments;
- Manufacturing of steel and industrial vehicles.

Referring to the date and manner of establishment, most of the surveyed SMEs were established in 1990. The oldest was 76 years old (established in 1929) and the youngest was 1 year old (established in 2004). Whereas 53.7% were set up on their owner's own initiative, 31.5% started as family owned businesses, and 7.4% were launched with a friend and/or relative.

Looking at the legal status of the surveyed SMEs, somewhat less than fifty percent of the respondents are classified as individual merchants whereas the remaining fifty percent as commercial establishments (11 SMEs), unlimited partnerships (2 SMEs), limited liability companies (3 SMEs), and limited partnerships (1 SME).

5.2 Descriptive Statistics of the Decisions Made by SME Owners

5.2.1 Employment Decisions

5.2.1.1 Changes in the Workforce Size (Appendix D)

The exploratory survey results indicate that the 54 SMEs currently employ 489 employees of which 310 are males and 179 are females, 36 employees are permanent part time workers with males outnumbering the females (27 male and 9 females), and 112 employees are temporary workers with females outnumbering the males (34 males and 78 female). Moreover, the survey reveals that two years ago, these SMEs used to employ a higher figure of 504 employees where the males were slightly lower in number (306 employees) and females were higher (198 females), permanent part time workers counted more (22 males and 18 females), and temporary workers counted less with the females counting double of the males (24 males and 42 females).

As a further reflection of these figures, 48% of the surveyed SMEs (26 respondents) have neither increased nor decreased their workforce size during the past two years whereby 15% (8 respondents) have decreased their workforce size and 29.6% (16 respondents) have increased it.

While considerable portion of the male owners (22 out of 42 male SME owners) have neither increased nor decreased the size of their workforce over the past

two years, the majority of the female owners (5 out of 12 SME female owners) have decreased the size. Most of the owners aged between 25 and 39 years old and those aged between 40 and 55 years old have neither increased nor decreased their workforce size over the past two years. Whereas no owner aged between 25 and 39 years old and 7 owners aged over 40 and 55 years old have decreased their workforce size over the past two years, 4 owners of the former group and 5 owners of the latter group have increased it.

Twenty (20) of the 43 urban SMEs have neither increased nor decreased their workforce size over the past two years in comparison with 6 of the 11 rural SMEs. Whereas a higher percentage of the urban SMEs appear to have increased their size (14 of the 43 urban SMEs or 32%) compared to the rural SMEs (2 of the 11 rural SMEs or 18%), a lower percentage of the former have decreased their size (6 out of the 42 urban SMEs or 14%) compared to the latter (2 of the 11 rural SMEs or 18%).

1.2.3 Business Investment Decisions (Appendix D)

5.2.1.2 Benefits Offered to Employees

Prior to the description of the business investment decisions made by the surveyed SMEs over the past two years, an overview of the financial sources utilized by the respondents to finance their decisions both at startup and throughout the lifetime of the enterprise would be helpful.

Tracking decisions made by the SME owners with respect to granting benefits to the employees, the survey covered benefits in the following forms:

- On-the-job and off-the-job trainings;
- Employment contracts, insurance/pension schemes, maternity/paternity leaves, salary increases, and productivity incentives;

- Safer working conditions, water, toilets, and transportation.

The observed SMEs varied in the extent of their offerings to the employees even within the same category. In the trainings category for instance, only 20.4% or 11 respondents have offered off-the-job trainings against 63% or 34 respondents that have offered on-the-job trainings. With regards to the second category, the salary increases appeared to be the most common form of benefit offered by the surveyed SMEs to their employees (55.6% or 30 respondents) while the remaining forms have been adopted by not more than one third of the respondents. Finally and within the third category, 72.2% and 68.5% of the respondents have offered water and toilets to their employees respectively against 54.7% and 37% that have offered safer working conditions and transportation respectively.

5.2.2 Business Investment Decisions (Appendix D)

Prior to the description of the business investment decisions made by the surveyed SMEs over the past two years, an overview of the financial sources utilized by the respondents to finance such decisions both at startup and throughout the lifetime of the enterprise would be helpful.

Upon startup of the SME, the largest portion of the respondents (31.5%) relied on funds from family while the smallest portion (9.3%) relied on funds from friends and

relatives. Whereas another significant portion of the respondents (25.9%) relied on their own equity, 15% and 9.3% of the respondents used credit from formal source and debt along with equity respectively.

Throughout their operations over the past two years, only 48.1% of the SMEs (26 respondents) have applied for credit access while 51.9% have not. Among the various financial sources discussed earlier, the respondents have mostly approached the commercial banks and very few approached the government credit fund or Kafalat (3 respondents), the NGO programs (4 respondents), the informal sources as friends/relatives (3 respondents), and the suppliers (9 respondents).

With respect to the types of business investment decisions undertaken by the SMEs over the past two years, the respondents have mostly engaged in the purchase of new office equipment (61.1% or 33 SMEs) followed by improvements in the working environment (44.4% or 24 SMEs). While 33.3% have purchased additional production equipment and 37% improved old working equipment, 29.6% have expanded premises. On the other hand, investment in new products or services is apparent among the respondents as well where 20.4% of the SMEs or 11 SMEs have undergone such investments.

While more than half of the male SME owners have undertaken investments in the form of purchases of additional production and office equipments as well as in the form of improvements in the working conditions and old equipments (34 and 23 out of 42 male SME owners respectively), almost half of the female SME owners have

undertaken such investment decisions (5 and 6 out of 12 female SME owners respectively). As far as the premise related investments, similar fraction of male and female SME owners (around 33% or 14 male SME owners out of 42 male owners and 4 out of 12 female SME owners) is noted. The investments in new products or services by both male and female owners did not exceed one fifth of the 54 SME owners (9 out of 42 male owners and 2 out of 12 female owners). The figures descriptively suggest an ambiguous pattern among male and female SME owners with respect to various forms of investment decisions.

Thirty four (34) of the 43 urban SMEs have invested in purchases of new production and office equipments over the past two years in comparison with 5 of the 11 rural SMEs. Whereas a higher percentage of the rural SMEs appear to have invested in improvements of working conditions and old equipments (9 of the 11 rural SMEs or 82%) compared to the urban SMEs (20 of the 43 urban SMEs or 47%), a lower percentage of the former have undertaken premise-related investments (2 out of the 11 rural SMEs or 18%) compared to the latter (16 of the 43 urban SMEs or 37%).

5.2.3 Registration patterns

Regarding the registration patterns of the observed SMEs and the official visits of national agencies to these SMEs, the exploratory survey covered the following national agencies: Income Tax and VAT authorities, Ministry of Economy & Trade,

Ministry of Labor and NSSF, Ministry of Industry, Chamber of Commerce, and Commercial Industry.

Ninety point seven percent (90.7%) of the SMEs (49 respondents) are registered with income tax authorities while 55.8% (30 respondents) are registered with VAT authorities. While two thirds of the SMEs (66.7%) are registered with NSSF, 51.9% with the Commercial Registry, 40.7% with the Chamber of Commerce; 24.1% are registered with the Ministry of Economy & Trade and 13% with the Ministry of Industry.

Around 20% of the SMEs have been visited by income tax authorities over the past two years and around 33% by VAT authorities. On the other hand, 6 SMEs had visits for licensing issues and another 6 for labor issues.

3.2.4 Past Performance and Future Expectations of SMEs

While almost all of the male SME owners (41 out of 42 male SME owners) have registered with income tax authorities, around two thirds of the female SME owners have done so (8 out of 12 female SME owners). Via the same token and looking at the registrations with the VAT authorities, a lower number than that of the income tax authorities could be noted for both males and females (25 male and 5 female SME owners). Among the registrations with the ministries, 10 and 13 registrations are noted for the male SME owners with the Ministry of Labor and Ministry of Economy & Trade respectively against no registration for the female SME owners with these ministries. As far as the registrations with the Chamber of Commerce and the Commercial Registry,

18 and 23 male SME owners have reported to have been registered with these agencies respectively against only 4 and 5 female SME owners respectively. Thirty nine (39) and 26 of the 43 of urban SMEs have been registered with income tax and VAT authorities in comparison with 10 and 4 of the 11 rural SMEs. Whereas a higher percentage of the rural SMEs appears to have registered with Chamber of Commerce and Commercial Registry (8 of the 11 rural SMEs or 72.7% with each), a lower percentage of the urban appears to have registered with these agencies (32 and 46 of the 43 urban SMEs or 32% and 46% respectively). In case of all agencies, rural SMEs seem to have been more active in registrations than the urban ones.

5.2.4 *Past Performance and Future Expectations of SMEs*

Most of the interviewed SME owners exposed a bright picture regarding the performance of their SMEs over the past two years. More than 80% of the respondents have rated their performance above average (24 SMEs rating it as acceptable, 16 SMEs as good, and 5 SMEs as very good) against only 9 SMEs who have seen their performance as either poor or very poor.

Classifying past performance evaluations by the age groups of the SME owners reveals that the only 2 SMEs that have performed very poor over the past two years are

owned by owners aged between 40 and 55 years. The numbers show that 12 of the 13 SMEs owned by individuals aged from 25 to 39 years and 11 out of 11 SMEs owned by individuals aged above 55 years, and 21 out of the 20 SMEs owned by individuals aged from 40 to 54 years have exhibited above average performance.

Looking at the performances in terms of the educational qualification of the SME owners, it is apparent that the poor performance evaluations came mainly from those with secondary school education (3 out of 7 poorly performing SMEs) followed by primary school education (2 out of 7 poorly performing SMEs). On the other hand, the average performance rating came mostly from university graduate owners of SMEs (13 out of 24 average performing SMEs) followed by those with secondary level education.

Thirty six (36) of the 43 urban SMEs (around 84%) and that 9 of the 11 rural SMEs (81.8%) have had an acceptable to very good performance over the past two years.

Similarly, the future performance expectations of the surveyed 54 SME owners for the next two years were also optimistic. Eighty nine percent (89%) of the respondents expect their future performance to be above average (16 SMEs expecting it as acceptable or ok, 27 SMEs as good, and 5 SMEs as very good) against only 6 SMEs that expect either poor or very poor performance for the next couple of years.

5.3.1 Classifying the future performance expectations classified by the age groups of the SME owners reveals that the only 2 SMEs that have performed very poor over the past two years are owned by owners aged between 40 and 55 years. Moreover, the numbers show that 12 of the 13 SMEs owned by individuals aged from 25 to 39 years, 23 out of 28 SMEs owned by individuals aged from 40 to 54 years, and all of the 12 SMEs owned by individuals older than 55 years old have exhibited above average performance.

Looking at the performances in terms of the educational qualification of the SME owners, it is apparent that the below average performance expectations came mainly from those with less than secondary school level of education. On the other hand, the average performance expectations came mostly from university graduate owners of SMEs (8 out of 16 SMEs expecting average performance).

5.3 Hypothesis Testing

The current section of the chapter shall be divided into two parts: the first dealing with descriptive hypotheses, and the second with relationships testing.

5.3.1 *Descriptive Hypotheses*

relationship between any other macro- or micro-environmental factors and the workforce changes, the survey results suggest that the business size and type in addition to the ability to obtain resources are the following two

The underlying part shall test several descriptive hypotheses revolving around the influential factors on each of the following: the observed changes in the workforce, the business investment decisions, the registration patterns, the past performance, and the future expectations.

5.3.1.2 *Benefits Offered to Employees (Appendix E)*

importance of the business size and type in addition to the ability to obtain resources

5.3.1.1 Changes in the Workforce Size

Still another interest of the current study entails the assessment of the impact, if any, that benefits of various forms would exercise on employee performance at

workplace. Based on the sluggish economic activity pointed throughout the literature review, one particular interest to test revolves around the relationship between the nation's economic activity on one hand and the changes in the workforce sizes on the other. In reflection to the sluggish economic activity over the past couple of years as discussed in an earlier chapter, one would expect SMEs to be negatively affected and as such to be keen to either maintain or reduce their workforce size in order to avoid redundant resources. In effect, the responses of the 54 surveyed SME owners validated such a statement whereby around 50 respondents have stated that their decisions to reduce or maintain the workforce size over the past two years was highly related to their business requirements and market conditions in terms of customer demand.

A similar interest revolved around the relationship between the employee performance on one hand and the employment contracts, insurance/pension schemes,

In an attempt to test the relationship between any other macro- or micro-environmental factors and the workforce changes, the survey results suggest that the business size and type in addition to the ability to obtain resources are the following two factors shaping up the workforce change decisions made by the SME owners (as noted by 9.3% and 3.7% of the respondents respectively).

5.3.1.2 Benefits Offered to Employees (Appendix E)

Still another interest of the current study entails the assessment of the impact, if any, that benefits of various forms would exercise on employee performance at workplace as perceived by SME owners.

Concerned with testing the existence of any direct relationship between on-the-job and off-the-job-trainings on one hand and the employee performance, the responses obtained from the 54 SMEs supported the assumed direct relationship for both kinds of training though not to the same extent for both. While more than half of the respondents (55.6%) who have provided on-the-job perceived enhanced employee performance at the workplace, slightly less than one fifth of the respondents (18%) have perceived as such regarding the off-the-job training.

A similar interest revolved around the relationship between the employee performance on one hand and the employment contracts, insurance/pension schemes,

maternity/paternity leaves, productivity incentives, and salary increases on the other, which are among the basic employee rights according to the Labor Law discussed in an earlier section of the paper. The survey findings suggest that: first, the influence of employment contracts stands close to that of insurance/pension schemes; and second, both enjoy a direct relationship with employee performance. Specifically speaking, among those who have offered such benefits, a large portion of 10 SME owners have provided written employment contracts and enjoyed better performance and 13 respondents enjoyed the same fate with the insurance/pension schemes. Similarly, the responses with respect to maternity/paternity leaves (16 of the 54 SME owners perceiving improved performance) suggest a positive relationship. As for productivity incentives and salary increases, around one third (28.8%) and two fifths (44.4%) of the interviewed SME owners have provided such incentives and experienced better employee performance. Thus, it would be easily observed that such benefits which constitute the minimum required by the Labor Law tend to impact positively on employees noting that the salary increases tend to be the most effective.

What concerns the physical working conditions as the introduction of safer working conditions, water, toilet, and transportation, the gathered data were used to check the assumed direct relationship between each of these factors and the employee performance. Such an assumption appears to be valid given the responses obtained from the sample. Almost two fifths of the surveyed SME owners have specified that the introduction of safer working conditions and water has led to an improvement in working conditions, around half with regards to toilets and one third with reference to transport.

5.3.1.3 Business Investment Decisions (Appendix E)

Many micro- and macro-environmental factors tend to influence business investment decisions of which the cost of borrowing, the market conditions, the rules and regulations could be some to note. Using Likert scale of 5 responses ranging from strong negative to strong positive influence on business investment decisions, many such factors have been tested.

As was the case with the changes in the workforce size, the market, in terms of customer demand, was found to be a prominent factor that would positively influence investment decisions to be embarked on by the SMEs. A majority of 28 respondents have stated the market having a positive influence on their business investment decisions against a minority of only 2 who have found it having a strong negative influence. Testing for the impact of business size or type or status upon business investment decisions, the results indicate the existence of a positive relationship whereby 8 respondents evaluated it as having a strong positive influence on their decisions and 23 as positive influence. Similarly, access to finance and access to resources were found to be of positive influence as they were evaluated almost identically by a majority of 22 respondents.

Besides the factors that were found to have a positive relationship with investment decisions, the cost of workers in terms of wages was found to be a factor

negatively influencing such decisions by a majority of 12 respondents similar to the taxes and government policies by a majority of 23 and 17 respondents respectively.

requirements remain to be factors negatively related to the registration patterns.

Shedding some light on the reasons stated behind the past evaluations as

presented in the table 5.3.1.4, the reasons for the past evaluations as

5.3.1.4 Registration Patterns (Appendix F)

Shedding some light on the reasons stated behind the past evaluations as

presented. Given the heavy registration requirements – costs of registration, time consumption, information and reporting requirements – discussed previously on one hand, and the observed disparity among the registration patterns of the surveyed SMEs on the other, this section shall descriptively test the factors influencing the SMEs in their registration decisions.

mentioned the excessive regulations and restrictions as a primary reason

As expected, the costs associated with the registrations as well as periodic contributions, the time limitations, the availability of information, and the reporting requirements have been reported by most of the surveyed SMEs as factors driving them away from registration with any of the national agencies covered in the survey. However, the legal status, the insurance and protection, the access to capital, the tendering possibilities, and the fear from fines have been noted as factors urging them to register.

the weak competition and availability of market opportunities. In

Almost all of the interviewed SMEs have helped assert that registrations with the national agencies as the income tax authorities, for instance, comes in a proactive

behavior of avoiding fines and harassments though the costs associated with registration along with the consumption of time, the information availability, and the reporting requirements remain to be factors negatively related to the registration patterns.

5.3.1.5 Past Performance of SMEs

Shedding some light on the reasons stated behind the past evaluations as presented earlier, the following observations could be made:

- The SMEs who have rated their performance as very poor specified the difficulties associated with access to credit and the high competition as two major factors contributing to such a performance
- 2 of the 7 SMEs that have rated their performance as poor have mentioned the excessive regulations and restrictions as a primary reason for such a performance along with another two who mentioned un-supportive government policies. Besides these two factors other reasons mentioned include the lack of skills, the weak business networks, and the credit access troubles as influential factors though to a lesser extent
- 10 of the 24 SMEs who evaluated their performance as average due to their strong business skills and experience as the most contributing factor important reason for such a performance followed by 6 SMEs who noted the weak competition and availability of market opportunities. In addition some other factors contributing to such results to note would be

- the strength of existing business networks, the limited volume of regulations and restrictions, and the easy of credit access
- 6 of the 16 SMEs who have rated their performance as good have referred to the low competition as a major reason with another 6 SMEs that referred to the strong business skills and experience
- Finally, the factors mentioned as of primary influence on the very good performance of the surveyed businesses are the ease of access to credit, supportive government regulations, and strong business skills

5.3.1.6 Future Expectations of SMEs

Summing up the survey responses regarding the factors developing the future performance expectations described earlier, one could note the following:

- The SMEs who have expected very poor future performance expectations noted the non-suitability of the overall environment for small business, the non-supportive attitude of the government, and the high costs of running a business
- 2 of the 4 SMEs that expect poor performance in the future pointed out to the competition and another 2 pointed out to the costs of running a business as primary influential factors. Besides these two, other factors also raised out include the unsupportive government policies and the non-suitability of the overall environment

- 8 of the 14 SMEs who expect an average performance stated the suitability of the overall environment for small business as the most contributing factor. In addition some other factors contributing to such results to note would be the lower costs of running a business, the good access to credit and finance, and the access to good business networks
- 16 of the 27 SMEs who expected their future performance to be good have referred to the suitability of the overall environment as a major reason with another 4 SMEs that referred to the ease of credit and finance access. Some other important factors mentioned include the weak competition and the access to business networks
- Finally, the factors mentioned as of primary influence on the very good performance expectations are the good access of business networks, of credit, and of finance.

5.3.2 Relationships Testing

The current part shall examine the possible relationship between employment decisions, business investment decisions, registration patterns, past performance, and future expectations on one hand and the demographics – gender, age, and educational background – of SME owners and location, size, sector, legal status of SMEs on the other.

Given the qualitative nature of the gathered data, the hypotheses would be tested non-parametrically using the Chi Square tool of the SPSS statistical software to pinpoint whether or not the variables, as put above, set SMEs apart from each other as regards the employment decisions, the business investment decisions, the registration patterns, the past performance, and the future expectations. It would be worth to note that at instances where the SPSS package fails to run the non parametric test due to the restrictions set by the sample size of 54 observations, the discriminant classification tool would be used to assert or nullify the set hypotheses.

5.3.2.1.2 SME Profile and Changes in the Workforce Size

5.3.2.1 SME Employment Decisions

With respect to the relationship between the changes in the workforce size and

5.3.2.1.1 SME Owner Profile and Changes in the Workforce Size

results showed that none of these variables have a significant relationship with the changes in the workforce size. Hence, SMEs at different locations or with different

workforce Testing the relationship between the demographics of SME owner and workforce changes using the Chi Square test returned the following results:

- Significant relationship between the changes in the workforce size and the gender of the SME owner on one hand (p value = 0.024) and the educational background on the other (p value = 0.1). This would suggest that male and female owners tend to behave differently with respect to the changes in the workforce size as do the owners with different educational backgrounds,

- 5.3.2.1.1 • Insignificant relationship between the workforce changes and the age demographics of the SME owner on one hand (p value > 0.5) and the technical or professional training acquired by the SME owners on the other (p value $= 0.6$). Thus, no variations could be noted in workforce change decisions given the age of the owner and his/her acquisition of technical training and those have not.

5.3.2.1.2 SME Profile and Changes in the Workforce Size

With respect to the relationship between the changes in the workforce size and the SME demographics as location, size, sector, and legal status; the chi square test results showed that none of these variables have a significant relationship with the changes in the workforce size. Hence, SMEs at different locations or with different workforce sizes or in different sectors or under different legal statuses do not differ in their decisions with respect to changes in the workforce size.

5.3.2.1.4 SME Profile and Benefits Offered to Employees

In turn, the tests run on the relationship between the offering of benefits and SME characteristics returned the following results:

5.3.2.1.3 SME Owner Profile and Benefits Offered to Employees

The hypotheses testing the relationships between the SME owner demographics and the benefits offered to employees returned the following results:

- Insignificant relationship between each of the ten benefits listed in the survey and the gender of the SME owner as well as the educational background of the SME owner (p value > 0.1).
- Significant relationship among the age groups was noted for the benefits in the form of safer working conditions, water, toilets, and transportation (p value < 0.05) and not for the on-the-job training, off-the job trainings, employment contracts, insurance/pension schemes, leaves, and salary increases (p value > 0.1).

Accordingly, the only SME profile element affecting the offering of benefits is the age especially when it comes to physical benefits meaning that SME owners with different ages tend to behave differently only in improving the physical workplace conditions.

5.3.2.1.4 SME Profile and Benefits Offered to Employees

In turn, the tests run on the relationship between the offering of benefits and SME characteristics returned the following results:

- A significant relationship exists between the location of SME (urban vs. rural) and its business sector (trade, services, manufacturing) on one hand, with the offering of benefits in terms of on-the-job training, off-the-job training, safer working conditions, water, toilets, and transportation (p values < 0.1) on the other
- No significant relationship exists between SME size (in terms of workforce size) and the offering of any kind of benefits (p values > 0.1) suggesting the absence of any distinction among SME owners regarding the offering of benefits given the size of the enterprise.

5.3.2.2.1 SME Owner Profile and Business Investment Decisions

While the size of the SME plays no role in dictating the decisions concerning the offering of benefits, the location and sector tend to affect such decisions.

The hypothesis test results with respect to SME owner demographics and the business investment decisions are summarized as follows:

5.3.2.2 Business Investment Decisions

business investment decisions made with respect to purchases of additional production equipments and new office equipments but not

On the subject of business investment decisions, similar hypotheses as those covered earlier would be tested to find out the relationship between such decisions and profile components of the SMEs and their owners. Before conducting the non-parametric tests or discriminant classifications however, the list of eight investment examples listed in the survey was regrouped into four categories signifying the eight investments as follows:

- Purchases representing the purchases of additional production equipment and/or new office equipment
- Improvements standing for improvements in the working environment and/or old working equipments
- Premise-related signifying moves into new premises, expansion of old premises, and/or establishment of additional premises
- New products/services developments

5.3.2.2.2 SME Profile and Business Investment Decisions

5.3.2.2.1 SME Owner Profile and Business Investment Decisions

The hypothesis test results with respect to SME owner demographics and the business investment decisions are summarized as follows:

- Gender of the SME owner appeared to be significantly related with business investment decisions made with respect to purchases of additional production equipments and new office equipments but not with improvements, premise-related, and new product investment decisions ($p \text{ value} < 0.1$). On the other hand, the educational background was found to be significantly related to all sorts business investment decisions. Thus, the gender of the SME owner appears to be influential on some of the investment decisions as purchases of additional production equipments and new office equipments while the educational

- background appears to have no effect on any kind of investment decision.
- The significance of the relationship that ties the investment decisions with the age of the SME owners was valid only with respect to decisions in the form of investments in new products/services development (p value almost 0.05) and not for the remaining investment activities.

5.3.2.2.2 SME Profile and Business Investment Decisions

The summary of the hypothesis results pertaining to the relationship between the SME profile and the investment decisions are as follows:

- The relationship of SME location (urban vs. rural) with investment decisions related to purchases, improvements, and new products/services development was found to be significant (p value = 0.05) unlike the one with moves into new premises, expansion of old premises, and/or establishment of additional premises.
- A significant relationship was noted between SME size and improvement or premise-related investments (p value = 0.1) while no such relationship was noted for the other two categories of investments given the SME size.

- The relationships between all sorts of business investment decisions and the SME's sector or business type was reported to be insignificant (p values > 0.1)

Where the sector or the business type of the SME exercise no influence upon all kinds of investment decisions and the size influences premise-related investments; the location tends to influence such investment decisions as purchases, improvements, and new products/services development.

5.3.2.3 SME Registration Patterns

5.3.2.3.1 SME Owner Profile and Registration Patterns

With regards to the registration patterns and their possible relationship with SME owner demographics, the series of hypotheses tested revealed the following outcomes:

- Highly significant relationship exists between gender of the SME owner and the registration patterns with income tax authorities (p value = 0.001), with Ministry of Labor or NSSF (p value = 0.06), and with the Ministry of Economy & Trade (p value < 0.05), but not with each of the VAT authorities, the Chamber of Commerce, the Ministry of Industry, and the Commercial Registry (p values > 0.1) suggesting that male and

female owners tend to vary in their registration decisions only with respect to Ministry of Labor or NSSF and Ministry of Economy & Trade

- The only significant relationship pertinent to the age of the SME owner appears to be with the Ministry of Labor or NSSF registrations (p value < 0.1) while the one pertinent to the educational background of the owner appears to be not only with the Ministry of Labor or NSSF registrations, but also with the Chamber of Commerce, the Ministry of Industry, and the Commercial. Thus, while owners with different educational backgrounds tend to perform similar registration decisions with regard to all agencies, those with different ages tend to do so as well except for registration decisions with regard to Ministry of Labor or NSSF.

5.3.2.3.3 Official Visits and Registration Patterns

5.3.2.3.2 SME Profile and Registration Patterns

In addition to these tests, four other tests were run to test the relation between the observed registrations patterns of the SMEs with some of these agencies on one hand and As for the registration patterns and their possible relationship with SME

demographics, the series of hypotheses tested revealed the following outcomes:

- Significant relationship between the SME location and the registration patterns with all of the seven agencies covered in the survey (p values < 0.1).

- Only two significant relationships related to SMEs size – tax registrations (income tax and VAT) and Ministry of Labor or NSSF (p values < 0.1).
- No significant relationships noted between the SME sector and the registration patterns with any of the agencies as well as between SME business type and such registrations (p values > 0.1).

Even though the location of the SME affects the registration decisions regarding all agencies and the size affects such decisions with tax authorities, the sector and business type have no effect regarding all agencies.

5.3.2.3.3 Official Visits and Registration Patterns

In addition to these tests, four other tests were run to test the relation between the observed registrations patterns of the SMEs with some of these agencies on one hand and the official visits made by such agencies to the surveyed SMEs on the other.

The hypothesis testing the relationship between the visits from income tax authorities to SMEs and the registrations with these authorities, led to the assertion that a significant relationship exists similar to the one between the official visits from trade authorities and the SME registrations with Ministry of Economy & Trade. On the other hand, the relationship between official visits and registrations regarding VAT and Labor

authorities, led to the conclusion that such a relationship is not significant (p value > 0.1) apparent.

5.3.2.4 Past Performance and Future Expectations

Last series of tests performed on the data obtained from the 54 surveyed SMEs involves the past performance evaluations and future expectations. Specifically speaking, this section of the chapter tested the existence of any relationship among the SME owner demographics and SME profiles on reported past performances and future expectations; second, it tested the existence of any relationship between each of the financial resources, sales level changes, and workforce size changes and the reported past performances.

5.3.2.4.1 Past Performance and Future Expectations

While the relationship between the past performance and gender was noted as insignificant, that between the past performance and the age of the SME owner on one hand, and the educational background on the other hand, were noted as significant. An opposite scenario was noted with regards to future expectations whereby the

relationship of gender with expectations was significant and those of age as well as educational background with expectations were not.

Whereas no significant relationship was found between the past performance and each of the SME location and SME type, a significant one was noted with SME size. Regarding the relationships of these variables with the future expectations, similar results were repeated.

5.3.2.4.2 Financial Resources, Sales, Workforce Size

Among the tested hypotheses on the collected data the relation between the past performance of the SMEs and their ability to get access, the changes in their sales level, and the changes in their workforce sizes are some to mention. Except for the changes in the workforce size, the ability to get access to financial resources and the changes in the sales levels appeared to be in direct relation with the performance of the 54 SMEs over the past two years.

1. Arrive at a definition of SMEs in Lebanon based on European and American definitions
2. Highlight the descriptive hypotheses to be tested at later stages of the study through a literature review covering the macro-economic

CHAPTER 6

SUMMARY AND RECOMMENDATIONS

This paper reported on the findings of an investigation into the legal and financial environments in which SMEs operate in Lebanon through a review of the relevance and the effectiveness of various environmental factors that impact employment, investment, and registration patterns of SMEs by both male and female owners of different educational and professional backgrounds. Particular attention was also paid to gaps in such decisions or patterns among urban and rural SMEs as well as among SMEs of different sizes, business types, and sectors.

6.1 Reinstatement of Research Objectives

As a project assessing the Lebanese SME environment, this study aimed at defining the SMEs in Lebanon and highlighting the environmental atmosphere via an exploratory research at the micro- and macro-environmental levels in an aim of raising recommendations. In particular, the research aimed to:

1. Arrive at a definition of SMEs in Lebanon based on European and American definitions
2. Highlight the descriptive hypotheses to be tested at later stages of the study through a literature review covering the macro-economic

- environment, the labor market conditions, the business setting, the legal and the financial frameworks
3. Highlight the relational hypotheses to be tested at later stages through key informant interviews with a sample of 54 SME owners while portraying their demographics - gender, age, and educational attainments on one hand; and the location, size, and legal status of these SMEs on the other
4. Investigate some of the decisions made by SME owners pertaining to employment, business investments, registration patterns with national authorities,
5. Perform descriptive hypotheses regarding the factors influential on employment decisions, business investment decisions, registration patterns, past performance evaluations, and the future expectations
6. Examine possible relationships between employment, business investment, registration decisions on one hand and the demographics – gender, age, educational background, experience – of the SME owners or the SME Owner Profile, and location, size, sector, date and manner of establishment, and legal status or business type of the SME or the SME Profile, on the other hand

6.2 Summary of Methodology

To arrive at above objectives, the research employed a literature review concerning the definition of SMEs in Europe and United States, the Lebanese macroeconomic environment embodying the SMEs, the legal and financial frameworks within which Lebanese SMEs operate as well as an assessment survey covering 54 Lebanese SMEs distributed over the Lebanese territory and among the various economic sectors. Specifically speaking, the material used extended from interviews to official publications to electronic sources developed by individuals, economists, official local and international authorities with the aim of formulating a number of hypotheses to be tested using the Statistical Package for Social Sciences (SPSS) software.

6.3 Summary of Significant Findings

This section includes a summary of the important findings of this study, as they related to the objectives of the study beginning with the definition of SMEs in Lebanon and ending with the relational hypotheses results.

6.3.1 Objective 1: Arrive at a Definition of SMEs in Lebanon

At the absence of a legal definition of SMEs in Lebanon, the project looked into the European and American definitions along with some of the recently launched programs or legislations by the Lebanese government in order to have a foundation upon which a definition for the Lebanese SMEs would be built. The research came across several criteria upon which the SMEs are defined in various countries of which the number of workers employed and the annual sales turnover were the most common.

The programs and legislations that were found to be incorporating some criteria that might help define the SMEs in Lebanon were the Government Credit Fund or the Kafalat program targeting SMEs and the Value Added Tax (VAT) legislation. Based on these sources, the research noted that the SME definition in Lebanon could either be based upon the VAT legislation that set a threshold of LBP 150 million and as such SMEs would be those with a turnover not trespassing this threshold or upon the Kafalat program that set the eligibility of the enterprises to the program as those employing less than 40 employees and as such SMEs would be those with a workforce of size of less than 40 employees.

6.3.2 Objective 2: Highlight Descriptive Hypotheses

The literature review of the Lebanese macroeconomic environment embodying the SMEs along with the legal and financial frameworks within which Lebanese SMEs operate highlighted the descriptive revolving around the influential factors on the employment decisions, the business investment decisions, the registration patterns, the past performance, and the future expectations.

The descriptive hypotheses to be tested were:

- A negative relationship exists between the workforce size decisions and the nation's economy, while a positive one with the business requirements and the market conditions
- A direct relationship exists between the employee performance and the offering of benefits
- A positive relationship exists between the business investment decisions and the market conditions
- A negative relationship exists between the registration patterns and the registration requirements
- The presence of dissimilarities among SMEs for different locations, for varying sizes, sectors, and legal statuses with regard to the changes in the workforce size of the SMEs, the possibility of offering benefits to employees, the business investment decisions made, the registration decisions with the national authorities, the past performance evaluations, and the future performance expectations

6.3.3 Objective 3: Highlight Relational Hypotheses While Portraying SME Owner

Demographics and SME Profiles

The preliminary assessment of the SME environment via a sample of 54 enterprises based showed that 77.8% of the surveyed SME owners were, the average age was 46.04 years, 70.4% had post secondary education, and 46.4% of them ran another business doing a similar work before starting up the enterprise. In addition, 79.6% of the surveyed SMEs were from urban areas, 50% of them had workforce size of five to fifteen employees, 59.3% operated in the trade sector, and less than 50% were classified as individual merchants.

6.3.4 Objective 4: Investigate the Decisions Made by the SMEs

The relational hypotheses extracted from these data on the other hand dealt with:

- The existence of differences among male and female SME owners as well as owners of different ages and educational backgrounds relative to the changes in the workforce size of the SMEs, the possibility of offering benefits to employees, the business investment decisions made, the registration decisions with the national authorities, the past performance evaluations, and the future performance expectations
- The presence of dissimilarities among SMEs for different locations, for varying sizes, sectors, and legal statuses with regard to the changes in the workforce size of the SMEs, the possibility of offering benefits to

employees, the business investment decisions made, the registration decisions with the national authorities, the past performance evaluations, the future performance expectations

- The existence of a relationship between official field visits from some official agencies on the registration decisions of the SMEs with these agencies
- The presence of a relationship between each of the financial resources, sales level changes, and workforce size changes and the past performances of the SMEs

6.3.4 Objective 4: Investigate the Decisions Made by the SMEs

The exploratory survey results indicated that the 54 SMEs currently employed 489 employees of which 310 were males and 179 were females where 48% of them had neither increased nor decreased their workforce size during the past two years. From another perspective, the observed SMEs varied in the extent of their offerings to the employees where only 20.4% or 11 respondents had offered off-the-job trainings, 63% had offered on-the-job trainings, 55.6% had offered salary increases, and more than 50% had offered physical workplace improvements.

Throughout their operations over the past two years, only 48.1% of the SMEs had applied for credit access mostly through the commercial banks and very few

through the government credit fund or Kafalat, the NGO programs, the informal sources as friends/relatives, and the suppliers. With respect to the types of business investment decisions undertaken by the SMEs over the past two years, the respondents had mostly engaged in the purchase of new office equipment (61.1%) followed by improvements in the working environment (44.4%).

Regarding the registration patterns of the observed SMEs with some national agencies, the exploratory survey showed that 90.7% of the SMEs were registered with income tax authorities, 55.8% with VAT authorities, 66.7% with NSSF, and 51.9% with the Commercial Registry, 40.7% with the Chamber of Commerce. As for the official visits from such agencies, 20% of the SMEs had been visited by income tax authorities over the past two years and 33% by VAT authorities.

Most of the interviewed SME owners exposed a bright picture regarding the performance of their SMEs over the past two years and their expectations for the future. While 80% of them rated their performance above average, 89% expected their future performance to be above average as well.

6.3.5 Objective 5: Descriptive Hypotheses Testing

Descriptively testing for the existence of a positive relationship between the workforce size decisions and the nation's economy, the responses of the 54 surveyed

SME owners validated such a statement with 50 of them stating that their decisions to reduce or maintain the workforce size over the past two years was highly related to their business requirements and market conditions in terms of customer demand.

Concerned with testing the existence of any direct relationship between on-the-job and off-the-job trainings on one hand and the employee performance, the responses obtained from the 54 SMEs supported the assumed direct relationship for both kinds of training with 55.6% that have provided on-the-job training and 18% that have provided off-the-job training perceiving enhanced employee performance at the workplace. Similarly, the relationship between the employee performance on one hand and the employment contracts, insurance/pension schemes, and maternity/paternity leaves, productivity incentives, and salary increases on the other, the survey found a direct relationship with employee performance enhancement where 10 of those that have provided written employment contracts, 13 of those that have provided insurance/pension schemes, and 16 of those that have provided maternity/paternity leaves, had enjoyed enhanced performance as a result. As for productivity incentives and salary increases, 28.8% and 44.4% of the surveyed SMEs had provided such incentives and experienced better employee performance. What concerns the physical working conditions as the introduction of safer working conditions, water, toilet, and transportation, the gathered data supported the assumed direct relationship between each of these factors and the employee performance.

As was the case with the changes in the workforce size, the market, in terms of customer demand, was found to be a prominent factor that would positively influence

investment decisions to be embarked on by the SMEs where 28 respondents have stated the market having a positive influence on their business investment decisions.

As expected, the costs associated with the registrations as well as periodic contributions, the time limitations, the availability of information, and the reporting requirements have been reported by most of the surveyed SMEs as factors driving them away from registration with any of the national agencies covered in the survey. However, the legal status, the insurance and protection, the access to capital, the tendering possibilities, and the fear from fines have been noted as factors urging them to register.

6.3.6 Objective 6: Relational Hypotheses Testing

Testing for the differences among male and female SME owners as well as owners of different ages and educational backgrounds relative to the changes in the workforce size of the SMEs and the offering of benefits and even though the age was the only demographic variable not affecting size decisions, it appeared to be affecting the decision of offering physical benefits to employees. As for the business investment decisions and while the gender appeared to be affecting only business investment decisions made with respect to purchases, the educational background was found to be influential to all sorts business investment decisions. Similarly whereas the gender of the SME owner was found to be causing variations mainly with respect to registration

decisions with income tax authorities and Ministry of Labor or NSSF, the age of the SME owner was found doing so with the Ministry of Labor or NSSF registrations only.

Checking for the presence of dissimilarities among SMEs for different locations, for varying sizes, sectors, and legal statuses with regard to the changes in the workforce size of the SMEs, the tests performed showed that none of these variables cause dissimilarities in workforce size decisions. As for the offering of physical benefits, the two SME profile factor causing dissimilarities were found to be the location and the sector especially when it comes to the offering of benefits on-the-job training, off-the-job training, safer working conditions, water, toilets, and transportation benefits. With regards to the business investment decisions, location and size were found to be the most influential SME profile factors on purchase, improvement, and new products/services development investment decisions. Concerning the registration patterns, the SME size was the mostly prominent factor affecting the registration decisions with the national authorities.

The hypothesis testing the relationship between the visits from income tax authorities to SMEs and the registrations with these authorities, led to the assertion that indeed a relationship exists similar to the one between the official visits from trade authorities and the SME registrations with Ministry of Economy & Trade. On the other hand, the relationship between official visits and registrations regarding VAT and Labor authorities, led to the conclusion that such a relationship is not apparent.

Last series of tests performed on the data obtained from the 54 surveyed SMEs involved the past performance evaluations and the existence of any relationship a between each of the financial resources, sales level changes, and workforce size changes and the reported past performances. Accordingly the tests revealed that except for the changes in the workforce size, the ability to get access to financial resources and the changes in the sales levels appeared to be in direct relation with the performance of the 54 SMEs over the past two years.

- Modification of the Government Credit Fund / Kafalat program to incorporate more feasible application requirements

6.4 Recommendations on SME Environment Enhancement

The findings of this preliminary study bring forward the following recommendations that could help develop an enabling SME environment in Lebanon in which potential for development could be improved to heighten the prospect for success. In such an attempt, attention to the following broad-based issues should be directed:

- Development of, SME specific, stable and consistent governmental laws and regulations to overcome the drawbacks of the legal framework;
- Centralization of the registrations faced by the SMEs in a single network equipped with support centers to overcome the heavy and unclear registration systems; the lack of information to SMEs and entrepreneurs, the lack of coordination and networking

- Improvements and incentives in the business environment in terms of reduced telecommunication and transportation costs, improved infrastructure, etc.
- Governmentally sponsored management, marketing and organization development of SMEs to surmount the general lack of business, marketing, and managerial skills and to promote acquisition of business education and vocational training (hotel, restaurant, etc.)
- Modification of the Government Credit Fund / Kafalat program to incorporate more feasible application requirements
- Targeted services, to increase the participation of women in economic activities.

6.5 Recommendations for Future Studies

Given the exploratory nature of this project, future research may nevertheless be constructive and highly recommended.

- One future study could further develop the findings of the current research aiming for more comprehensive outcomes through the selection of a larger sample size representative of all sectors and all geographic areas.
- Another project could expand the area of the survey and assess the internal environments of the SMEs

- One other project could modify the current questionnaire to include more quantitative indicators enabling other statistical tests to be run and regression models to be developed.
- Instead of looking at the SME environment, future study could focus on the role of the SMEs in the development of the nation.
- Another interesting and useful study could be a comparative one, for example between the Lebanese environment and that of the other Middle Eastern nations as Jordan, Syria, Egypt, etc.

BACKGROUND INFORMATION

(to be filled in by interviewer prior to the interview as these are the criteria for sampling, but this has to be verified at the beginning of each interview by observation/questioning)

Sex of respondent:	
Male	
Female	

Business location	
Urban	
Rural	

Business size in terms of number of workers	
1-4	
5-15	
16-40	

Business sector:	
Trade	
Service	
Manufacturing	

APPENDIX A

A. PROFILE OF BUSINESS & BUSINESS OWNER/MANAGER

1. How old are you? **SURVEY QUESTIONNAIRE**

15-24	
25-39	
40-55	
Above 55	

Assessment of SME Environment in Lebanon

September 2005

Date of interview:	dd	mm	yy
Interviewer's name:			

QUALITY CONTROL [to be filled in by supervisor after interview]

Checked by:		Corrected	Yes	No
Date checked:				

BACKGROUND INFORMATION

[to be filled in by interviewer prior to the interview as these are the criteria for sampling, but this has to be verified at the beginning of each interview by observation/questioning]

Sex of respondent:	
Male	
Female	

Business location	
Urban	
Rural	

Business size in terms of number of workers	
1-4	
5-15	
16-40	

Business sector:	
Trade	
Service	
Manufacturing	

2. What is the highest educational qualification that you have obtained? (single

A. PROFILE OF BUSINESS & BUSINESS OWNER/MANAGER

1. How old are you? [Write in age of respondent] _____

15-24	
25-39	
40-55	
Above 55	

(go to 3)

3. Please tell us which type of technical training you acquired? Any other training received. And what was its duration?

Technical Training Acquired	Duration

4. What were you doing before you began this business? (Read out: single mention)

I ran another business doing similar work	
I was an employee in another persons private business	
I was an employee in public company	
I was a government employee	
I was unemployed and seeking a job	
I was a full-time student	
Other (specify)	

5. What year did you start your present business?

[Write in year]

6. How did you start your business? (Single response required)

As a family-owned business	
On my own initiative	
Friend /Relative	
It was bought as a running business	
Any other (Please specify)	

7. How did you finance your business at the start? (Mention main source: Single response required)

Own Equity	
Credit from formal source	
Funds from Family	
Funds from friends/relatives	
Own equity and Debt	
Any other (Please specify)	

2. What is the highest educational qualification that you have obtained? [single mention]

No formal schooling	
Primary school (6 years or less)	
Secondary school (7-9 years)	
Post-secondary education (10-12 years)	
University (bachelors/masters)	
Vocational or technical training	

(go to 3)

3. Please tell us which type of technical training you acquired? Any other training received. And what was its duration?

Technical Training Acquired	Duration

4. What were you doing before you began this business? [Read out: single mention]

I ran another business doing similar work	
I was an employee in another persons private business	
I was an employee in public company	
I was a government employee	
I was unemployed and seeking a job	
I was a full-time student	
Other (specify)	

5. What year did you start your present business?

[Write in year]

6. How did you start your business? [Single response required]

As a family-owned business	
On my own initiative	
Friend /Relative	
It was bought as a running business	
Any other (Please specify)	

7. How did you finance your business at the start? [Mention main source: Single response required]

Own Equity	
Credit from formal source	
Funds from Family	
Funds from friends/relatives	
Own equity and Debt	
Any other (Please specify)	

11. Employment in business TWO YEARS ago [write in number]

8. What type of business is this? [Read out: single mention]

Individual Merchant	
Commercial Establishment	
Unlimited Partnership	
Limited Liability Company	
Limited Partnership	
Joint Stock Company	
Limited Partnership by Shares	
Other (Specify)	

9. Do you have a bank account specifically for your business? [a bank account that is separate from your personal account]

Yes	
No	

10. Employment in business: [write in number; write '0' for zero and 'N' for no response]

	Permanent Full-time		Permanent Part-time		Casual/ temporary	
	M	F	M	F	M	F
a. Including yourself, how many workers are there in your business at present?						
b. Excluding yourself, how many of these are paid workers at present?						
c. Excluding yourself and any paid workers counted above (b), how many of current workers are family members (relatives)?						
d. Apprentices working in this business						

No of Workers (including owner)	Full time	Part time	Temporary
1-4			
5-15			
16-40			

11. **Employment in business TWO YEARS ago** [write in number]

	Permanent Full-time		Permanent Part-time		Casual/ temporary	
	M	F	M	F	M	F
a. Including yourself how many workers were there in your business two years ago?						
b. Excluding yourself, how many of these were paid workers two years ago?						
c. Excluding yourself and any paid workers counted above (b), how many of workers were contributing family members two years ago?						
d. Number of Apprentices working in this business two years ago						

No of paid workers two years back:

No of Workers (including owner)	Full time	Part time	Temporary
1-4			
5-15			
16-40			

12. **What type of products/services does your business produce/provide?**

International projects/NGO	
Family/friends	
Money lenders	
Leasing Companies	
Suppliers' Credit	
Other (specify)	

13. **Have your businesses experienced a change in the amount of sales over the past two years. Has it increased, stayed the same or decreased over the last two years?** [Single mention]

Very much increased	Increased	Stayed the same	Decreased	Very much decreased

14. **During the past two years have you participated in any business management or technical training related to your business?**

Yes	
No	

15. Are you a member of any of the following organizations? [Read out: multi-mention]

	Yes	No
Chamber of Commerce		
Business Association		
Employers Association		
Other(specify)		

16. Have you tried to get any kind of finance for your business over the past two years?

Yes		Go to q17
No		Go to q18

17. Where did you try to get the business loan and were you successful? [Ask the question for "Short Term Financing", first and then ask the same question about "Long Term Financing" and then for "Trade Financing"]

A- Short Term Financing

	Tried to access credit?		Successful? [answer only if yes in same row]	
	Yes	No	Yes	No
Commercial Banks				
Government credit fund (Kafalat)				
Microfinance Institutions				
International projects/NGO				
Family/friends				
Money lenders				
Leasing Companies				
Suppliers' Credit				
Other (specify)				

B- Long Term Financing

	Tried to access credit?		Successful? [answer only if yes in same row]	
	Yes	No	Yes	No
Commercial Banks				
Government credit fund (Kafalat)				
Microfinance Institutions				
International projects/NGO				
Family/friends				
Money lenders				
Leasing Companies				
Suppliers' Credit-				
Other (specify)				

C- Trade Financing

* This list will be available with the interviewee to mark the necessary code
Newspaper(1), Govt. publications(2), Chamber of Commerce(3), Business Association(4), Lawyer/Attorney(5), Accountant(6), Professional Business adviser(7), Other Institute/office(8), Other(specify) _____

B. DECISIONS TAKEN CONCERNING

21. What factors have influenced your decision to start/expand your business? (Indicate the number of workers that you employ in the business)

	Tried to access credit?		Successful? [answer only if yes in same row]	
	Yes	No	Yes	No
Commercial Banks				
Government credit fund (Kafalat)				
Microfinance Institutions				
International projects/NGO				
Family/friends				
Money lenders				
Leasing Companies				
Suppliers' Credit				
Other (specify)				

18. How do you normally get your information (and advice) on business and legal matters? [Do NOT read out: 1st and 2nd -mention] (Ask this question one by one about Finance, Tax, Trade, Labour, Licensing, Business Regulations)

If yes write the applicable codes from list⁴
(mention the top two sources)

	Yes	No
Finance		
Tax		
Trade		
Labour		
Licensing		
Business Regulations		

1 st Mention	2 nd Mention
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

19. During the past 2 years have you ever had a government official visit your business for any of the given purposes? [Single mention] (Ask this question one by one about Finance, Tax, Trade, Labour, Licensing, Business Regulations)

20. If Yes, List the departments whose officials visited your business.

	Yes	No	Mention department in case of Yes
Finance			
Tax			
Trade			
Labour			
Licensing			
Business Regulations			
Statistics Department			

⁴ This list will be available with the interviewer to mark the necessary code:

Newspapers(1), Govt. publications(2), Chamber of Commerce(3), Business Association(4), Lawyer/Attorney(5), Accountant(6), Professional Business adviser(7), Other business owner(8), Others(specify)_____.

B. DECISIONS TAKEN CONCERNING EMPLOYMENT

21. What factors have influenced your decisions to expand, reduce or maintain the number of workers that you employ during the last two years?
[describe with clear words and concepts]

Depends on business requirements		
Government policies	Yes	No
Performance of worker		(If yes, answer Q.25-A)
Inflation		(If yes, answer Q.25-B)
Market conditions		(If yes, answer Q.25-C)
Political considerations		(If yes, answer Q.25-D)
Provided maternity or paternity leave		(If yes, answer Q.25-E)

22. During the last two years have you increased, maintained or reduced your work force?

Increased	
Neither increase nor decrease	
Decreased	
Does not apply	

23. Which factor played the most important role in your decision to increase, maintain or decrease (whichever is applicable) the number of work force? [Give only one answer]

A	The markets (Referring to whether the demands of customers or suppliers had an influence upon your employment decisions)	
B	Your business premises (Referring to the influence the size, type or status of your business premises had upon your employment decisions)	
C	Payments to workers (Referring to the influence the costs for workers had upon your decisions to increase or decrease the size of your workforce)	
D	Labour regulations (Referring to the influence of labour laws and regulations upon your decisions to increase or decrease your number of workers)	
E	Access to finance (Referring to the affect that the opportunities you have, or have not had, to obtain finance for your business has had upon your employment decisions)	
F	Access to resources/Inputs & raw material (Referring to how your access to resources such as skills, equipment, technology, etc. has affected your employment decisions)	
G	Export to other countries (Referring to the influence of your desire to enter or expand your markets into other countries)	
H	Taxation (Referring to the affect that taxation, such as personal tax, company tax, or any other kind of tax had upon employment decisions)	
I	Special Incentives	
J	Government policies (Referring to how your employment decisions were influenced	

	by government support, restrictions, or attitudes)	
K	Structure of the company	

24. Over the last two years, have you provided any of the following benefits to your workers? *[Read out: multi-mention]*

	Yes	No	
On the job training			[if yes, answer Q.25–A]
Off-the job training			[if yes, answer Q. 25–B]
Written employment contracts			[if yes, answer Q.25–C]
Pension/insurance scheme			[if yes, answer Q.25–D]
Provided maternity or paternity leave			[if yes, answer Q.25–E]
Workers have productivity incentives			[if yes, answer Q.25–F]
Workers have received a salary increase			[if yes, answer Q.25–G]
Made safer working conditions			[if yes, answer Q.25–H]
Water			[if yes, answer Q.25–I]
Toilet			[if yes, answer Q.25–J]
Transport for workers			[if yes, answer Q.25–K]

25. How did the changes that you made to the conditions of your workers affect your business's performance? *[Only mark the categories that the respondent marked in Q.24]*

		Better performance	No difference	Worse performance
A	On the job training			
B	Off-the job training			
C	Written employment contracts			
D	Pension/insurance scheme			
E	Provided maternity or paternity leave			
F	Workers have productivity incentives			
G	Workers have received a salary increase			
H	Made safer working conditions			
I	Water			
J	Toilet			
K	Transport for workers			

C. BUSINESS INVESTMENTS

26. Over the last two years have you made any of the following investments in your business? [read out: multi-mention]

	Yes	No							
			Purchased additional production equipment						
			Purchased new office equipment						
			Improved the working environment						
			Improved old working equipment						
			Moved to better premises						
			Expanded premises						
			Established additional premises						
			Invested in new Products/services development						
			Other (specify)						
A			Customer demands (Referring to whether the demands of customers or suppliers had an influence upon your investment decisions)						
B			Your business premises (Referring to the influence the size, type or status of your business premises had upon your investment decisions)						
C			Payments to workers (Referring to the influence the costs for workers had upon your investment decisions)						
D			Labour regulations (Referring to the influence of labour laws and regulations upon your investment decisions)						
E			Access to finance (Referring to the affect that the opportunities you have, or have not had, to obtain finance for your business has had upon your investment decisions)						
F			Access to resources (Inputs & raw material) (Referring to how your access to resources such as skills, equipment, technology, etc. has affected your investment decisions)						
G			Export to other countries (Referring to the influence of your desire to enter or expand your markets into other countries)						
H			Taxation (Referring to the affect that taxation, such as personal tax, company tax, or any other kind of tax had upon investment decisions)						
I			Special Incentives						
J			Government policies (Referring to how your employment decisions were influenced by government support, restrictions, or attitudes)						
K			Structure of the company						

Interviewer's note: The term 'positive influence' refers to an influence toward investing in the business (including any of the investments referred to in Question 36), while the term 'negative influence' refers to an influence toward making no business investments.

27. Over the last two years, how have the following factors influenced your decisions regarding investment in your business? [read out and mark an answer for each option]

		Strong positive influence on my decisions	Positive Influence on my decisions	No Influence on my decisions	Negative influence on my decisions	Strong negative influence on my decision	Does not apply
		++	+	0	-	--	
A	The markets (Referring to whether the demands of customers or suppliers had an influence upon your investment decisions)						
B	Your business premises (Referring to the influence the size, type or status of your business premises had upon your investment decisions)						
C	Payments to workers (Referring to the influence the costs for workers had upon your investment decisions)						
D	Labour regulations (Referring to the influence of labour laws and regulations upon your investment decisions)						
E	Access to finance (Referring to the affect that the opportunities you have, or have not had, to obtain finance for your business has had upon your investment decisions)						
F	Access to resources/Inputs & raw material (Referring to how your access to resources such as skills, equipment, technology, etc. has affected your investment decisions)						
G	Export to other countries (Referring to the influence of your desire to enter or expand your markets into other countries)						
H	Taxation (Referring to the affect that taxation, such as personal tax, company tax, or any other kind of tax had upon investment decisions)						
I	Special Incentives						
J	Government policies (Referring to how your employment decisions were influenced by government support, restrictions, or attitudes)						
K	Structure of the company						

Interviewer’s note: The term ‘positive influence’ refers to an influence toward investing in the business (including any of the investments referred to in Question 36), while the term ‘negative influence’ refers to an influence toward making no business investments.

D. BUSINESS REGISTRATION

28. Are you registered with any of the following agencies? [read out: multi-mention]

	Yes	No
a. "Tax authorities" Income Tax		
b. "Tax authorities" VAT		
c. Ministry of Labor		
d. NSSF		
e. Ministry of economy & Trade		
f. Chamber of Commerce		
g. Ministry of Industry		
h. Commercial Registry		
i. Other (Specify)		

29. To what extent have the following factors influenced your decision to register/not to register with the Income Tax Department? [read out: multi-mention]

	Positive influence	No influence	Negative influence
Costs: <i>Referring to influence the costs of registration and the regular payment of taxes had upon your decisions to register or not register</i>			
Time: <i>Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection: <i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts</i>			

30.	Fines and harassment: <i>Referring to whether your decision to register or not register was influenced by a fear of fines, or harassment by police and other authorities if you were not registered</i>	Influenced your decision to register or not [Tax Authority]? <i>read out:</i>	to
		Positive	No

Interviewer's note: The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.

<i>Referring to influence the costs of registration and the regular payment of taxes had upon your decisions to register or not register</i>			
Time: <i>Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection: <i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts</i>			
Fines and harassment: <i>Referring to whether your decision to register or not register was influence by a fear of fines, or harassment by police and other authorities if you were not registered</i>			

Interviewer's note: The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.

<i>Referring to influence the costs of registration and the regular payment of taxes had upon your decisions to register or not register</i>			
Time: <i>Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection: <i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts</i>			
Fines and harassment: <i>Referring to whether your decision to register or not register was influence by a fear of fines, or harassment by police and other authorities if you were not registered</i>			

30. To what extent have the following factors influenced your decision to register/not to register with the VAT Departmet [Tax Authority]? [read out: multi-mention]

	Positive influence	No influence	Negative influence
Costs: Referring to influence the costs of registration and the regular payment of taxes had upon your decisions to register or not register			
Time: Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register			
Information: Referring whether your decision to register or not register was influenced by your understanding of how and when to register			
Reporting requirements: Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered			
Government support: Referring to whether any support from government available after registration affected your decision to register or not register			
Legal status: Referring to whether your decision to register or not register was influenced by the type of legal structure your business has			
Insurance and protection: Referring to whether the availability of insurance or official protection influenced your decision to register or not register			
Access to capital/resources: Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register			
Tendering and exporting: Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts			
Fines and harassment: Referring to whether your decision to register or not register was influence by a fear of fines, or harassment by police and other authorities if you were not registered			

Interviewer’s note: The term ‘positive influence’ refers to an influence toward a decision to register, while the term ‘negative influence’ refers to an influence toward a decision not to register.

32. To what extent have the following factors influenced your decision to register/not to register with the NSSF ? [read out: multi-mention]

	Positive influence	No influence	Negative influence
Costs: Referring to influence the costs of registration and the regular payment of fees or taxes had upon your decisions to register or not register			
Time: Referring to influence the time (such as travelling or			

31. To what extent have the following factors influenced your decision to register/not to register with the Ministry of Labor? [read out: multi-mention]

	Positive influence	No influence	Negative influence
Costs: Referring to influence the costs of registration and the regular payment of fees or taxes had upon your decisions to register or not register			
Time: Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register			
Information: Referring whether your decision to register or not register was influenced by your understanding of how and when to register			
Reporting requirements: Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered			
Government support: Referring to whether any support from government available after registration affected your decision to register or not register			
Legal status: Referring to whether your decision to register or not register was influenced by the type of legal structure your business has			
Insurance and protection: Referring to whether the availability of insurance or official protection influenced your decision to register or not register			
Access to capital/resources: Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register			
Tendering and exporting: Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts			
Fines and harassment: Referring to whether your decision to register or not register was influenced by a fear of fines, or harassment by police and other authorities if you were not registered			

Interviewer's note: The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.

32. To what extent have the following factors influenced your decision to register/not to register with the NSSF? [read out: multi-mention]

	Positive influence	No influence	Negative influence
Costs: Referring to influence the costs of registration and the regular payment of fees or taxes had upon your decisions to register or not register			
Time: Referring to influence the time (such as travelling or			

<i>waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection: <i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts</i>			
Fines and harassment: <i>Referring to whether your decision to register or not register was influenced by a fear of fines, or harassment by police and other authorities if you were not registered</i>			

Interviewer's note: **The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.**

33. To what extent have the following factors influenced your decision to register/not to register with the Ministry of Economy & Trade? [read out: multi-mention]

Information:	<i>Positive influence</i>	<i>No influence</i>	<i>Negative influence</i>
Costs: <i>Referring to influence the costs of registration and the regular payment of fees or taxes had upon your decisions to register or not register</i>			
Time: <i>Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you</i>			

<i>must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection: <i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts</i>			
Fines and harassment: <i>Referring to whether your decision to register or not register was influence by a fear of fines, or harassment by police and other authorities if you were not registered</i>			

Interviewer's note: **The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.**

34. To what extent have the following factors influenced your decision to register/not to register with Ministry of Industry? [read out: multi-mention]

	<i>Positive influence</i>	<i>No influence</i>	<i>Negative influence</i>
Costs: <i>Referring to influence the costs of registration and the regular payment of fees or taxes had upon your decisions to register or not register</i>			
Time: <i>Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection:			

<i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts</i>			
Fines and harassment: <i>Referring to whether your decision to register or not register was influenced by a fear of fines, or harassment by police and other authorities if you were not registered</i>			

Interviewer's note: **The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.**

35. **To what extent have the following factors influenced your decision to register/not to register with The Commercial Registry(Ministry of Justice)?**
[read out: multi-mention]

	<i>Positive influence</i>	<i>No influence</i>	<i>Negative Influence</i>
Costs: <i>Referring to influence the costs of registration and the regular payment of fees or taxes had upon your decisions to register or not register</i>			
Time: <i>Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection: <i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not</i>			

37. <i>register was influenced by your desire to export to other countries or win government contracts</i>			
Fines and harassment: <i>Referring to whether your decision to register or not register was influenced by a fear of fines, or harassment by police and other authorities if you were not registered</i>			

Interviewer's note: The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.

36. To what extent have the following factors influenced your decision to register/not to register with the Chamber of Commerce? *[read out: multi-mention]*

	<i>Strong positive</i>	<i>No influence</i>	<i>Negative Influence</i>
Costs: <i>Referring to influence the costs of registration and the regular payment of fees or taxes had upon your decisions to register or not register</i>			
Time: <i>Referring to influence the time (such as travelling or waiting) had upon your decisions to register or not register</i>			
Information: <i>Referring whether your decision to register or not register was influenced by your understanding of how and when to register</i>			
Reporting requirements: <i>Referring whether your decision to register or not to register was influenced by the amount of reporting you must do once registered</i>			
Government support: <i>Referring to whether any support from government available after registration affected your decision to register or not register</i>			
Legal status: <i>Referring to whether your decision to register or not register was influenced by the type of legal structure your business has</i>			
Insurance and protection: <i>Referring to whether the availability of insurance or official protection influenced your decision to register or not register</i>			
Access to capital/resources: <i>Referring to whether your possible access to finance or other resources, once registered, influenced your decision to register or not register</i>			
Tendering and exporting: <i>Referring to whether your decision to register or not register was influenced by your desire to export to other countries or win government contracts</i>			
Fines and harassment: <i>Referring to whether your decision to register or not register was influenced by a fear of fines, or harassment by police and other authorities if you were not registered</i>			

Interviewer's note: The term 'positive influence' refers to an influence toward a decision to register, while the term 'negative influence' refers to an influence toward a decision not to register.

37. Are you registered with any of the following? *have these expectations?*

	Yes	No
Registrar of Trademark		
Registrar of Copyright		
Registrar of Patents		

E. BUSINESS PERFORMANCE & EXPECTATIONS TO THE FUTURE

38. How would you rate the performance of your business over the last two years?

[Read out: single mention]

Very poor		[answer Q. 39a]
Poor		[answer Q. 39a]
Ok		[answer Q. 39b]
Good		[answer Q. 39b]
Very good		[answer Q. 39b]

39. Have any of the factors listed below influenced your business to perform in such a way? *[Read out: circle the three most important factors based on the answer to Question 38]*

39a.	1 st	2 nd	3 rd
High competition and few market opportunities			
I don't have the skills or experience to do better			
Too many regulations and restrictions			
No good business networks			
Un-supportive government policies			
No access to credit			
39b.			
Competition is low and there are many market opportunities			
My business skills and experience are strong			
Few regulations and restrictions			
Good business networks			
Supportive government policies			
Access to credit			

40. How do you expect your business to perform in the next two years, compared to how it did in the past two years? *[Read out: single mention]*

Very poor		[answer Q. 41a]
Poor		[answer Q. 41a]
Ok – but could do better		[answer Q. 41b]
Good		[answer Q. 41b]
Very good		[answer Q. 41b]

41. Do any of the factors listed below lead you to have these expectations?

[Read out: circle the three most important factors based on the answer to Question 41]

41a.	1 st	2 nd	3 rd
The overall environment is not good for small business			
There is too much competition			
The government does not support small business			
The costs of running a business is high			
Access to finance and credit is difficult			
Access to business support networks is low			
41b.			
The overall environment is good for small business			
There is little competition			
The government supports small business			
The cost of running a business is low			
Access to credit and finance is good			
Access to business support networks is good			

Thank you for assisting us by responding to these questions.

Statistics	Age (years)
Valid	49
Missing	5
Mean	46.04
Median	48.00
Mode	45
Std. Deviation	10.07
Range	48
Minimum	27
Maximum	75

Table B.3 – SME Owner Profile by Educational Qualification

Educational Level	Frequency	Percent
No Formal Schooling	2	4.4
Primary School (6 yrs or less)	4	7.4
Secondary School (7 to 9 yrs)	17	31.5
Post-Secondary Education (10 to 12 yrs)	5	9.3
Vocational or technical training	4	9.3
University (Bachelors/Masters)	21	38.9
Total	54	100.0

APPENDIX B

Table B.4 – SME Owner Profile by Prior Experiences EXPLORATORY SURVEY RESULTS ON

	Frequency	Percent
I ran another business before	12	22.3
I was an employee in another persons private business	24	46.4
I was an employee in public company	2	3.7
I was unemployed and seeking a job	4	11.1
I was a full time student	9	16.7
Total	54	100.0

Table B.1 – SME Owner Profile by Gender

	Frequency	Percent
Male	42	77.8
Female	12	22.2
Total	54	100.0

Table B.2 – SME Owner Profile by Age

Statistics	Age (years)
Valid	49
Missing	5
Mean	46.04
Median	48.00
Mode	45
Std. Deviation	10.07
Range	48
Minimum	27
Maximum	75

Table B.3 – SME Owner Profile by Educational Qualification

Educational Level	Frequency	Percent
No Formal Schooling	2	4.4
Primary School (6 yrs or less)	4	7.4
Secondary School (7 to 9 yrs)	17	31.5
Post-Secondary Education (10 to 12 yrs)	5	9.3
Vocational or technical training	4	9.3
University (Bachelors/Masters)	21	38.9
Total	54	100.0

APPENDIX C

Table B.4 – SME Owner Profile by Prior Experience

	Frequency	Percent
I ran another business doing a similar work	12	22.3
I was an employee in another persons private business	24	46.4
I was an employee in public company	2	3.7
I was unemployed and seeking a job	6	11.1
I was a full time student	9	16.7
Total	54	100.0

Urban	43	79.6
Rural	11	20.4
Total	54	100.0

Table C.2 – SME Profile by Workforce Size

Number of Workers	Frequency	Percent
1 to 4	18	33.3
5 to 15	27	50.0
16 to 40	9	16.7
Total	54	100.0

Table C.3 – SME Profile by Business Sector

	Frequency	Percent
Trade	33	59.3
Service	16	29.6
Manufacturing	6	11.1
Total	54	100.0

Table C.4 – SME Profile by Manner of Establishment

	Frequency	Percent
As a family owned business	17	31.5
On my own initiative	29	53.7
With a Friend and/or relative	4	7.4
Other	4	7.4
Total	54	100.0

EXPLORATORY SURVEY RESULTS ON SME PROFILE

Individual Merchant	26	48.2
Commercial Establishment	11	20.4
Unlimited Partnership	2	3.7
Limited Liability Company	3	5.6
Limited Partnership	3	5.6
Joint Stock Company	1	1.9
Limited Partnership by Shares	4	7.4

Table C.1 – SME Profile by Location

Location	Frequency	Percent
Urban	43	79.6
Rural	11	20.4
Total	54	100.0

Table C.2 – SME Profile by Workforce Size

Number of Workers	Frequency	Percent
1 to 4	18	33.3
5 to 15	27	50.0
16 to 40	9	16.7
Total	54	100.0

Table C.3 – SME Profile by Business Sector

	Frequency	Percent
Trade	32	59.3
Service	16	29.6
Manufacturing	6	11.1
Total	54	100.0

Table C.4 – SME Profile by Manner of Establishment

	Frequency	Percent
As a family owned business	17	31.5
On my own initiative	29	53.7
With a Friend and/or relative	4	7.4
Other	4	7.4
Total	54	100.0

Table C.5 – SME Profile by Legal Status or Business Type

	Frequency	Percent
Individual Merchant	26	49.2
Commercial Establishment	11	20.4
Unlimited Partnership	2	3.7
Limited Liability Company	3	5.6
Limited Partnership	3	5.6
Joint Stock Company	1	1.9
Limited Partnership by Shares	4	7.4
Does not apply	4	7.4
Decreased	8	14.8
Neither increased nor decreased	26	48.1
Increased	16	29.6
Total	54	100.0

Table D.1 – Changes in the Workforce by Gender of SME Owner

Gender	Does not Apply	Decreased	Neither increased nor decreased	Increased	Total
Male	4	3	22	13	42
Female	0	5	4	3	12
Total	4	8	26	16	54

Table D.3 – Changes in the Workforce by Age Group of SME Owner

Age Group (years)	Does not apply	Decreased	Neither increased nor decreased	Increased	Total
15 to 24	0	0	0	1	1
25 to 39	1	0	8	4	13
40 to 55	2	7	13	6	28
above 55	1	1	5	5	12
Total	4	8	26	16	54

APPENDIX D

EXPLORATORY SURVEY RESULTS ON DECISIONS MADE BY SMEs

Table D.1 – Changes in the Workforce over the Last Two Years

	Frequency	Percent
Does not apply	4	7.4
Decreased	8	14.8
Neither increased nor decreased	26	48.1
Increased	16	29.6
Total	54	100.0

Table D.2 – Changes in the Workforce by Gender of SME Owner

Gender	Does not Apply	Decreased	Neither increased nor decreased	Increased	Total
Male	4	3	22	13	42
Female	0	5	4	3	12
Total	4	8	26	16	54

Table D.3 – Changes in the Workforce by Age Group of SME Owner

Age Group (years)	Does not apply	Decreased	Neither increased nor decreased	Increased	Total
15 to 24	0	0	0	1	1
25 to 39	1	0	8	4	13
40 to 55	2	7	13	6	28
above 55	1	1	5	5	12
Total	4	8	26	16	54

Table D.4 – Changes in the Workforce by Educational Level of SME Owner

Educational Qualification	Does not apply	Decreased	Neither increased nor decreased	Increased	Total
No Formal Schooling	1	0	1	0	2
Primary School	1	2	1	0	4
Secondary School	1	1	7	8	17
Post-Secondary Education	0	2	2	1	5
Vocational Training	1	0	2	2	5
University	0	3	13	5	21
Total	4	8	26	16	54

Table D.5 – Changes in the Workforce by SME Location

SME Location	Does not apply	Decreased	Neither increased nor decreased	Increased	Total
Urban	3	6	20	14	43
Rural	1	2	6	2	11
Total	4	8	26	16	54

Table D.6 – Changes in the Workforce by SME Workforce Size

SME Size	Does not apply	Decreased	Neither increased nor decreased	Increased	Total
1 to 4	1	3	12	2	18
5 to 15	2	3	10	12	27
16 to 40	1	2	4	2	9
Total	4	8	26	16	54

Table D.7 – Changes in the Workforce by SME Sector

SME Sector	Does not apply	Decreased	Neither increased nor decreased	Increased	Total
Trade	2	7	13	10	32
Service	1	1	8	6	16
Manufacturing	1	0	5	0	6
Total	4	8	26	16	54

Table D.8 – Changes in the Workforce by SME Legal Status or Business Type

	Does not apply	Decreased	Neither increased nor decreased	Increased	Total
Individual Merchant	2	4	14	6	26
Commercial Establishment	0	3	6	2	11
Unlimited Partnership	0	0	1	1	2
Limited Liability Company	0	0	1	2	3
Limited Partnership	0	0	2	1	3
Joint Stock Company	0	0	0	1	1
Limited Partnership by Shares	2	0	1	1	4
Other	0	1	1	2	4
Total	4	8	26	16	54

Table D.9 – Financing Means at the Start of the Business

	Frequency	Percent
Own equity	14	25.9
Credit from formal source	8	14.8
Funds from family	17	31.5
Funds from friends and/or relatives	6	11.1
Own equity and debt	5	9.3
Other	4	7.4
Total	54	100.0

Table D.10 – Financial Access

	Frequency	Percent
Yes	26	48.1
No	28	51.9
Total	54	100.0

Table D.11 – Business Investment Decisions by Gender of SME Owner

Gender	Purchases	Improvements	Premise-Related Investment	New Developments	Total
Male	34	23	14	9	42
Female	5	6	4	2	12
Total	39	29	18	11	

Table D.12 – Business Investment Decisions by Age Group of SME Owner

Age Group	Purchases	Improvements	Premise-Related Investment	New Developments
15 to 24	1	1	1	1
25 to 39	11	5	3	1
40 to 55	18	17	8	8
above 55	9	6	6	1
Total	39	29	18	11

Table D.13 – Business Investment Decisions by SME Location

SME Location	Purchases	Improvements	Premise-Related Investment	New Developments
Urban	34	20	15	6
Rural	5	9	2	5
Total	39	29	18	11

Table D.14 – Business Investment Decisions by SME Size

SME Size	Purchases	Improvements	Premise-Related Investment	New Developments
1 to 4	11	20	2	3
5 to 15	20	17	10	5
16 to 40	8	6	6	3
Total	39	29	18	11

Table D.15 – Business Investment Decisions by SME Sector

SME Sector	Purchases	Improvements	Premise-Related Investment	New Developments
Trade	23	15	8	5
Service	12	10	8	4
Manufacturing	4	4	2	2
Total	39	29	18	11

Table D.16 – Business Investments

	Yes Frequency	Yes %	No Frequency	No %
Purchased additional production equipment	18	33.3	36	66.7
Purchased new office equipment	33	61.1	21	38.9
Improved the working environment	24	44.4	30	55.6
Improved old working equipment	20	37.0	34	63.0
Moved to better premises	7	17.0	47	87.0
Expanded premises	16	29.6	38	70.4
Established additional premises	5	9.3	49	90.7
Invested in new products/services development	11	20.4	43	79.6

Table D.17 – Registration Patterns by Gender of SME Owner

Gender	Male	Female
Income Tax authorities	41	8
VAT authorities	25	5
Ministry of Labor / NSSF	10	0
Ministry of Economy & Trade	13	0
Chamber of Commerce	18	4
Ministry of Industry	6	1
Commercial Registry	23	5

Table D.18 – Registration Patterns by Age Group of SME Owners

Agencies / Age Groups (years)	15 – 24	25 – 39	40 – 54	55 above
Income Tax authorities	1	11	26	11
VAT authorities	0	6	14	10
Ministry of Labor / NSSF	1	5	20	10
Ministry of Economy & Trade	0	2	5	6
Chamber of Commerce	1	3	12	6
Ministry of Industry	0	1	2	4
Commercial Registry	1	4	17	6

Table D.19 – Registration Patterns by SME Location

Gender	Urban	Rural
Income Tax authorities	39	10
VAT authorities	26	4
Ministry of Labor / NSSF	7	3
Ministry of Economy & Trade	10	3
Chamber of Commerce	14	8
Ministry of Industry	5	2
Commercial Registry	20	8

Table D.20 – Registration Patterns by SME Workforce Size

Agencies/Size (No of employees)	1 - 4	5 – 15	16 – 40
Income Tax authorities	16	27	6
VAT authorities	4	20	6
Ministry of Labor / NSSF	6	22	8
Ministry of Economy & Trade	2	7	4
Chamber of Commerce	7	10	5
Ministry of Industry	2	3	2
Commercial Registry	10	14	4

Table D.21 – Registration Patterns by SME Sector

Agencies/Sector	Trade	Services	Manufacturing
Income Tax authorities	30	14	5
VAT authorities	20	7	3
Ministry of Labor / NSSF	22	10	4
Ministry of Economy & Trade	9	2	2
Chamber of Commerce	17	3	2
Ministry of Industry	5	0	2
Commercial Registry	21	3	4

Table D.22 – Past Performance by Gender

Gender	Very Poor	Poor	OK	Good	Very Good	Total
Male	1	5	20	13	3	42
Female	1	2	4	3	2	12
Total	2	7	24	16	5	54

Table D.23 – Past Performance by Age Group

Age Group (years)	Very Poor	Poor	OK	Good	Very Good	Total
15 to 24	0	0	0	0	1	1
25 to 39	0	1	7	4	1	13
40 to 55	2	5	11	8	2	28
above 55	0	1	6	4	1	12
Total	2	7	24	16	5	54

Table D.24 – Past Performance by Educational Qualification

Educational Qualification	Very Poor	Poor	OK	Good	Very Good	Total
No Formal Schooling	1	0	0	1	0	2
Primary School	1	2	1	0	0	4
Secondary School	0	3	7	5	2	17
Post-Secondary	0	1	1	3	0	5
Vocational/Technical	0	0	2	1	2	5
University	0	1	13	6	1	21
Total	2	7	24	16	5	54

Table D.25 – Past Performance by SME Location

SME Location	Very Poor	Poor	OK	Good	Very Good	Total
Urban	2	5	19	13	4	43
Rural	0	2	5	3	1	11
Total	2	7	24	16	5	54

Table D.26 – Past Performance by SME Workforce Size

SME Size	Very Poor	Poor	OK	Good	Very Good	Total
1 to 4	2	3	11	1	1	18
5 to 15	0	3	7	14	3	27
16 to 40	0	1	6	1	1	9
Total	2	7	24	16	5	54

Table D.27 – Past Performance by SME Sector

SME Sector	Very Poor	Poor	OK	Good	Very Good	Total
Trade	2	6	12	10	2	32
Service	0	1	6	6	3	16
Manufacturing	0	0	6	0	0	6
Total	2	7	24	16	5	54

Table D.28 – Future Performance Expectations by Gender

Gender	Very Poor	Poor	OK but could do better	Good	Very Good	Total
Male	1	3	12	24	2	42
Female	1	1	4	3	3	12
Total	2	4	16	27	5	54

Table D.29 – Future Performance Expectations by Age Group

Age group (years)	Very Poor	Poor	OK but could do better	Good	Very Good	Total
15 to 24	0	0	1	0	0	1
25 to 39	0	1	2	8	2	13
40 to 55	2	3	7	14	2	28
above 55	0	0	6	5	1	12
Total	2	4	16	27	5	54

Table D.30 – Future Performance Expectations by Educational Qualification

Educational Qualification	Very Poor	Poor	OK but could do better	Good	Very Good	Total
No Formal Schooling	0	1	0	1	0	2
Primary School	1	1	0	2	0	4
Secondary School	0	1	3	11	2	17
Post-Secondary	1	0	2	2	0	5
Vocational/Technical	0	0	3	1	1	5
University	0	1	8	10	2	21
Total	2	4	16	27	5	54

Table D.31 – Influential Factors on Employment Decisions

	Frequency	Percent
The markets	43	79.6
Business premises	5	9.3
Labor regulations	1	1.9
Access to finance	2	3.7
Export to other countries	1	1.9
Government policies	1	1.9
Company structure	1	1.9
Total	54	100.0

APPENDIX E

DESCRIPTIVE HYPOTHESIS TESTING RESULTS

Table E.1 – Impact of On- and Off-the-Job Training on Performance

On the Job Training		
	Frequency	Percent
Yes, led to better performance	30	55.6
Yes, made no difference	4	7.4
No	20	37.0
Total	54	100.0

Off the Job Training		
	Frequency	Percent
Yes, led to better performance	10	18.5
Yes, made no difference	1	1.9
No	43	79.6
Total	54	100.0

Productivity Incentives		
	Frequency	Percent
Yes, led to better performance	15	27.8
Yes, made no difference	4	7.4
Yes, led to worse performance	1	1.9
No	36	66.7
Total	54	100.0

Salary Increases		
	Frequency	Percent
Yes, led to better performance	24	44.4
Yes, made no difference	5	9.3
Yes, led to worse performance	1	1.9
No	24	44.4
Total	54	100.0

Table E.2 – Impact of Financial Incentives on Performance

Employment Contracts	Frequency	Percent
Yes, led to better performance	10	18.5
Yes, made no difference	5	9.3
Yes, let to worse performance	1	1.9
No	38	70.4
Total	54	100.0

Insurance/Pension Schemes	Frequency	Percent
Yes, led to better performance	13	24.1
Yes, made no difference	2	3.7
Yes, let to worse performance	1	1.9
No	38	70.4
Total	54	100.0

Maternity/Paternity Leaves	Frequency	Percent
Yes, led to better performance	16	29.6
Yes, let to worse performance	2	3.7
No	36	66.7
Total	54	100.0

Productivity Incentives	Frequency	Percent
Yes, led to better performance	15	27.8
Yes, made no difference	4	7.4
Yes, let to worse performance	1	1.9
No	36	66.7
Total	54	100.0

Salary Increases	Frequency	Percent
Yes, led to better performance	24	44.4
Yes, made no difference	5	9.3
Yes, let to worse performance	1	1.9
No	24	44.4
Total	54	100.0

Table E.3 – Impact of Physical Benefits on Performance

	Safer Working Conditions	Frequency	Percent	Not Applicable
The market	Yes, led to better performance	23	42.6	0
Your business	Yes, made no difference	5	9.3	1
Payments to	Yes, led to worse performance	1	1.9	2
Labour regulations	No	25	45.3	4
Access to financing	Total	54	100.0	5
Access to foreign markets				5
Export to other countries	Water	Frequency	Percent	13
Taxation	Yes, led to better performance	26	48.1	9
Special incentives	Yes, made no difference	11	20.4	15
Government subsidies	No	17	31.5	8
Structure of company	Total	54	100.0	10
	Toilets	Frequency	Percent	
	Yes, led to better performance	26	48.1	
	Yes, made no difference	13	24.1	
	No	15	27.8	
	Total	54	100.0	
	Transportation	Frequency	Percent	
	Yes, led to better performance	17	31.5	
	Yes, made no difference	3	27.8	
	No	34	63.0	
	Total	54	100.0	

Table E.4 – Influential Factors on Business Investment Decisions

	Strong Positive	Positive	None	Negative	Strong Negative	Not Applicable
The markets	10	28	8	6	2	0
Your business premises	8	23	17	4	1	1
Payments to workers	1	4	33	12	2	2
Labour regulations	0	4	38	7	1	4
Access to finance	6	23	13	6	1	5
Access to resources	4	22	21	1	1	5
Export to other countries	4	4	30	1	0	15
Taxation	0	2	20	19	4	9
Special incentives	3	3	33	0	0	15
Government policies	0	3	26	13	4	8
Structure of the company	8	5	17	3	1	10

Table E.5 – Degree of Influence on Registration Decisions with Ministry of Labour and NSSF

	Positive Influence	No Influence	Negative Influence
Costs	2	34	18
Time	1	38	15
Information	1	40	13
Reporting Requirements	4	40	10
Government Policies	3	47	4
Legal Status	14	36	4
Insurance and Protection	6	48	0
Access to Capital/Resources	7	47	0
Tendering and Exporting	5	49	0
Fines and Harassment	9	45	0

Table E.6 – Degree of Influence on Registration Decisions with Ministry of Economy & Trade

	Positive Influence	No Influence	Negative Influence
Costs	4	38	12
Time	3	40	11
Information	4	40	10
Reporting Requirements	5	41	8
Government Policies	6	46	2
Legal Status	14	36	4
Insurance and Protection	3	51	0
Access to Capital/Resources	6	48	0
Tendering and Exporting	9	45	0
Fines and Harassment	49	5	0

Table E.7 – Degree of Influence on Registration Decisions with Ministry of Industry

	Positive Influence	No Influence	Negative Influence
Costs	2	46	6
Time	1	49	4
Information	2	47	5
Reporting Requirements	1	48	5
Government Policies	2	49	3
Legal Status	3	48	3
Insurance and Protection	0	53	1
Access to Capital/Resources	1	51	2
Tendering and Exporting	2	51	1
Fines and Harassment	1	49	4

Table E.10 – Degree of Influence on Registration Decisions with VAT Authorities

	Positive Influence	No Influence	Negative Influence
Costs	8	8	28
Time	5	23	24
Information	7	25	22
Reporting Requirements	5	28	21
Government Policies	7	42	3
Legal Status	29	21	5
Insurance and Protection	0	54	0
Access to Capital/Resources	14	40	0
Tendering and Exporting	10	44	0
Fines and Harassment	19	34	1

Table E.8 – Degree of Influence on Registration Decisions with Commercial Registry

	Positive Influence	No Influence	Negative Influence
Costs	4	27	23
Time	7	32	15
Information	6	32	16
Reporting Requirements	6	33	15
Government Policies	10	40	4
Legal Status	27	23	4
Insurance and Protection	3	50	1
Access to Capital/Resources	14	33	2
Tendering and Exporting	13	40	1
Fines and Harassment	17	34	3

Table E.9 – Degree of Influence on Registration Decisions with Income Tax Authorities

	Positive Influence	No Influence	Negative Influence
Costs	3	22	29
Time	4	36	24
Information	8	27	19
Reporting Requirements	7	28	19
Government Policies	10	36	8
Legal Status	42	8	4
Insurance and Protection	6	48	0
Access to Capital/Resources	14	39	1
Tendering and Exporting	10	42	2
Fines and Harassment	19	29	6

Table E.10 – Degree of Influence on Registration Decisions with VAT Authorities

	Positive Influence	No Influence	Negative Influence
Costs	8	8	28
Time	5	25	24
Information	7	25	22
Reporting Requirements	5	28	21
Government Policies	7	42	5
Legal Status	29	21	5
Insurance and Protection	0	54	0
Access to Capital/Resources	14	40	0
Tendering and Exporting	10	44	0
Fines and Harassment	19	34	1

APPENDIX F

RELATIONSHIP TESTING RESULTS

Table F.1 – Benefits Offered by Gender

Benefits	Males	Females	Out of
Training Offered	28	9	37 54
Financial Incentives Offered	23	7	30 54
Physical Benefits Offered	31	7	38 54
Out of Total	42	12	

Table F.2 – Benefits Offered by Age Group of SME Owner

Benefits	15 – 24 years	25 – 39 years	40 – 54 Years	55 years & above	Out of
Training Offered	1	8	19	9	37 54
Financial Incentives Offered	1	6	15	8	30 54
Physical Benefits Offered	1	6	19	12	38 54

Table F.3 – Benefits Offered by Educational Level of SME Owner

Benefits	No Formal Schooling	Up to Secondary or Vocational	Post Secondary /University	Out of
Training Offered	1	16	20	37
Financial Incentives Offered	0	14	16	30
Physical Benefits Offered	1	18	19	38

Table F.4 – Benefits Offered by SME Location

Benefits	Urban	Rural	Out of
Training Offered	27	10	37
Financial Incentives Offered	25	5	30
Physical Benefits Offered	28	10	38
Out of Total	43	11	

Table E.7 – Past Performance by Access of Finance

	Very Poor	Poor	OK	Good	Very Good	Total
Yes	1	2	9	10	4	26
No	1	5	13	6	1	26
Total	2	7	24	16	5	54

Table F.5 – Benefits Offered by SME Workforce Size

Benefits	1 – 4 Employees	5 – 15 employees	16-40 employees	Out of	
Training Offered	1	16	20	37	54
Financial Incentives Offered	0	14	16	30	54
Physical Benefits Offered	1	18	19	38	54

Table F.6 – Benefits Offered by SME Sector

Benefits	Trade Sector	Services Sector	Manufacturing Sector	Out of	
Training Offered	20	17	5	37	54
Financial Incentives Offered	15	12	3	30	54
Physical Benefits Offered	24	9	5	38	54

Table F.7 – Past Performance by Access of Finance

	Very Poor	Poor	OK	Good	Very Good	Total
Yes	1	2	9	10	4	26
No	1	5	15	6	1	28
Total	2	7	24	16	5	54

Table F.8 – Future Performance Expectations by SME Workforce Size

SME Size	Very Poor	Poor	OK but could do better	Good	Very Good	Total
1 to 4	1	3	8	4	2	18
5 to 15	1	0	5	19	2	27
16 to 40	0	1	3	4	1	9
Total	2	4	16	27	5	54

Table F.9 – Future Performance Expectations by SME Sector

SME Sector	Very Poor	Poor	OK but could do better	Good	Very Good	Total
Trade	2	3	9	15	3	32
Service	0	0	6	8	2	16
Manufacturing	0	1	1	4	0	6
Total	2	4	16	27	5	54

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