

How can small businesses cope in the face of multiple crises in Lebanon?

Exploring the determinants of resilience of micro and small enterprises in Lebanon

September 2022



Table of Contents

1. Executive Summary	4
2. Context	6
3. Research Objectives and Methodology	10
4. Findings	14
4.1 Structural Characteristics of the Firm	14
4.1.1 Firm's Size and Turnover	14
4.1.2 Firm's Sector of Activities	15
4.1.3 Firms' Ownership	16
4.1.4 Firm's Age	17
4.2 Networks and Relationships	18
4.2.1 Business Network Organizations	18
4.2.2 Sector of Activities, Education, and BNOs	18
4.2.3 Informal Networks	19
4.2.4 Political Connection and Bribery	20
4.3 Diversity of Financial Sources and Income Streams	20
4.3.1 Access to Inputs	20
4.3.2 Financing Investment and Growth	21
4.4 Adaptation as Key Business Resilience Capacity	23
4.4.1 Adaptive and Innovative Behaviors	23
4.4.2 Perceptions Around Factors Contributing to Adaptation	25
5. Case Studies on Pathways to Resilience	28
Case Study 1: Abdallah's "diving" sweets shop in Chtoura, Bekaa	29
Case Study 2: Nuhad's "diving" handbag shop in Tripoli	30
Case Study 3: Jean Charles' "thriving" ice cream hop in Hamra, Beirut	31
Case Study 4: Joseph's "thriving" tuk tuk services in Tripoli	32
6. Conclusions and Recommendations	34
6.1 What Did We Learn?	34
6.2 Implications for Development Responses	35

A photograph of a man with glasses and a black face mask, standing in a clothing store. He is wearing a plaid jacket over a dark shirt. The background shows racks of clothes. A large red overlay covers the right side of the image, and a white diagonal line runs across it. The text 'Executive Summary' is written in white on the left side.

Executive Summary

1. Executive Summary

Lebanon's recent past has been turbulent. Since 2019, after years of mismanagement, Lebanon has experienced a steady and significant economic deterioration alongside political turmoil, including the collapse of the country's financial system as well as the devaluation of the Lebanese pound (LBP). The situation has since been exacerbated by COVID-19, the Beirut port blast, and high international commodity prices driven by the conflict in Ukraine.¹ By the end of 2020, the majority of the population was estimated to have fallen under the poverty line, and 74% had increased in vulnerability from 2019. Among Syrian refugees in Lebanon, 89% had incomes that fell below the value of the survival minimum expenditure basket (SMEB). As the economic situation now becomes more dire, government and development actors are in need of innovative and impactful solutions to push back against this systemic deterioration.

Microenterprises are a critical engine for livelihoods across Lebanon. To better understand how the crisis has impacted microenterprises, Mercy Corps commissioned an exploratory study led by Agora Global with support from Economic Development Solutions (EDS). This study explores the range of impacts on microenterprises, examines different recovery trajectories, and tests hypotheses around the key determinants of firms' resilience. Firms were purposively sampled based on their assessed performance during the crisis: thrivers, which maintained or increased their trade volume and revenue; divers that lost a substantial portion of trade, and survivors, firms which lost some revenue but continued to function approximately as before.

What drives firms' performance?

- ◆ The crisis has affected the underlying dynamics of Lebanon's market system, and **while cooperation used to be a growth strategy, it no longer contributes to firms' resilience**. Peer networks, both formal Business Networking Organizations (BNOs) and informal collaborations among enterprises, are not helpful for firms' adaptation. In some cases, they provide poor information on market shifts and strategies for businesses to manage them. The study also suggests that political patronage is no longer as beneficial to firms as many assumed was the case pre-crisis; all politically-connected firms in the study are divers.
- ◆ **Businesses with diversified sources of funds are more resilient**. Firms function better when the owners have multiple businesses, have other family members with their own revenue streams, or receive remittances. Businesses that have access to several credit lines also perform better, whereas being dependent on just one credit source is common for divers.
- ◆ Firms which **practiced adaptation in more stable times honed their capacity for critical analysis and innovation, and are therefore adapting better in response to the crisis**. Faced with COVID-19 lockdowns and customers with lower purchasing power, they have updated their products and service offerings and adopted new marketing strategies to maintain sales. In particular, firms that incorporate online sales and marketing strategies, and develop novel service offerings stand out from the local competition, are now more successful and resilient.

¹ Mercy Corps, Lebanon Crisis Analytics Team (LCAT). Flash Update - Humanitarian Impact of Ukraine Conflict on Lebanon, March 2022. Available at: <https://www.mercycorps.org/press-room/releases/conflict-ukraine-exacerbate-crisis-lebanon>

While further research is needed to design specific SME support policies and programs in Lebanon, this assessment reinforces that Lebanon's economic crisis has not only damaged microenterprises, but has undercut their supporting structures as well. As government and development actors respond, they should consider options that work through these structures by encouraging more effective action on the part of BNOs and promoting more accessible financial products to microenterprises with limited collateral under current institutional standards. Actors should put a strong emphasis on assisting microenterprises with understanding market trends and opportunities, innovating their products to take advantage of those opportunities, and engaging competitively with the broader market. Furthermore, programs working directly with firms should design vulnerability criteria to ensure programming covers the most marginalized, noting that the vulnerability of a microenterprise is influenced by its structural qualities, such as size, sector, and age, as well as its behavior.

2. Context

Lebanon is currently going through its deepest financial, economic, and social crisis; one the World Bank described as one of the top three financial crises since the mid-nineteenth century in the world.² Lebanon's real GDP is estimated to decline by 10.5% in 2021 (on the back of a 21.4% contraction in 2020) with GDP per capita falling by around 40% and more declines anticipated.

This has had, and will continue to have, catastrophic consequences socially, with more than half of the population already falling under the national poverty line. UNESCWA has estimated that 74% of the Lebanese population had become income vulnerable by December 2020, representing approximately 2.86 million individuals. VASyR data for 2021 shows that Syrian refugees have also been heavily affected by the crisis where 89% of the population fell below the Survival Minimum Expenditure Basket (SMEB) compared to 55% in 2019 (representing a 61% increase in vulnerability).

In a heavily US dollarized economy that is overwhelmingly dependent on imports, with up to 80% or more of imported food and very little domestic production, banking restrictions on withdrawing USD have led to an ongoing economic collapse. Inflation has risen dramatically, with a plummeting exchange rate, heralding a deep transformation in the Lebanese economy. At the time of data collection (Fall 2021), the Lebanese pound (LBP) had plummeted in value against the USD on the parallel market by up to 78%; inflation reached +206% compared to prices in October 2019. This trend further aggravated, and by May 2022 the LBP had lost 94% of its value, and inflation reached as high as +961% between October 2019 and April 2022. Year-to-year inflation increase shows a +206% between April 2021 and April 2022, with a monthly increase of 7.1% in April 2022.

While much of this research was conducted before the war on Ukraine, since the invasion, inflation is estimated to have increased by 25% (between February and April 2022), owing partly to the international increase in prices of oil and cereals. Furthermore, there is significant risk that higher fuel and food prices could drive social tensions, instability, and protests.³ This exerts more pressure on the already weakened economy and poses additional social and economic risks, particularly for food security and the entrepreneurship and employment around the food system which is pivotal in the Lebanese economy.⁴ Impacts of the Ukraine war and related price hikes are reported in the case study annexed to the report.

Public services have been heavily curtailed, and the outlook does not look promising. Looking at the healthcare sector, both the economic crisis and the COVID-19 pandemic have taken a toll on the healthcare system. Healthcare services have decreased in quantity and quality, yet increased in cost. The gap between public and private services has further deepened, resulting in more inequality and heightened social tensions. The price of life-saving and essential medications has skyrocketed, and as a result of the 60% to 80% decline in imported medicines and medical equipment, almost all of them are in limited supply. This places vulnerable girls and women, especially pregnant and lactating mothers, at an increased disadvantage. Additionally, the deteriorating economic landscape and financial instability is affecting the type of care families seek and sometimes the quality of care delivered.

² World Bank (2022). The Great Denial. Lebanon Economic Monitor Group.

³ Mercy Corps (2022). Flash update humanitarian impact of the conflict in Ukraine. LCAT: Beirut

⁴ UN Strategic Development Cooperation Framework (UNSDF 2022).

Similarly, the public education sector, which was under-funded prior to the crisis and was negatively impacted by the influx of Syrian refugees beginning in 2011, is currently experiencing a severe crisis with significant gaps in infrastructure, equipment, and employees. The combination of these elements has resulted in a decline in the quality of education.

Looking at the production and business side of the economy, over half of the population own or are employed in small businesses.⁵ In Lebanon, small to medium enterprises are a bloodline across different cities and communities, providing livelihoods and a steady income to their employees, as well as essential services and goods in an otherwise fragile country. In 2018, a World Bank study reported that SMEs in Lebanon amount to 95% of companies and consist of 50% of the country's total labor force. In the most comprehensive primary data available on microenterprises, Hamdan (2016) conducts an in-depth analysis of the sector nationally. There are over 200,000 MSMEs in Lebanon and an estimated 91% of these are microenterprises with fewer than five employees, and a large share of them are informal. Firms with less than 19 workers generate about 20% of gross marginal value added (MVA). The contribution of microenterprises to the economy, both through employment within them and multipliers from them, is unparalleled. The majority of these businesses are sole proprietorships that operate as retailers, and about one in five are owned by women.

The compounding crises since 2019 have had a detrimental impact on MSMEs in Lebanon, and those who have managed to survive, are struggling. In addition to the multifaceted negative impact of the crisis, since early 2020, **COVID-19** and the responses of the government have had a major impact on the country. Recurrent enforced closures of businesses, curfews, and restrictions around social distancing have resulted in substantial constraints to doing business, in addition to the direct health impacts on microenterprise owners, workers, suppliers, and customers. The **blast in Beirut** on August 4th 2020, also had a ripple effect on businesses throughout Lebanon, where the impact on the economy included losses in economic activity, fiscal revenues, and trade and supply chain disruptions. The Rapid Damage Needs Assessment (RDNA) conducted by the EU, WB, and UN estimated physical damages of the explosion at USD 3.8-4.6 billion, and losses in terms of economic flow at USD 2.9-3.5 billion.

Since 2019, there has been a sharp rise in unemployment, highlighting the Lebanese economy's fundamental and long-term incapacity to create enough decent and lasting jobs. Prior to the crisis, and even during the periods of growth, the Lebanese economy was creating an estimated average of 3,400 new decent jobs annually, equaling around one sixth of the jobs needed for new entrants to the market.⁶ Therefore, expectedly, after the onset of the crisis, unemployment quickly increased, but exact figures are missing due to a lack of recent official data. A study by Information International showed some figures for layoffs and expected loss of jobs for 2020 in various sectors of activity:

- ◆ Around 10,000 to 15,000 layoffs among private schools and the education sector.
- ◆ Around 50,000 employees are at-risk as a result of the closure of touristic and entertainment sites.
- ◆ 20,000 to 25,000 employees may lose their jobs as numerous small enterprises are closed, amid rising inflation, a weaker lira, and slashed demand on non-essential goods.
- ◆ 50,000 to 60,000 fresh graduates may become unemployed as international and regional doors are shut in the face of Lebanon amid the deteriorating circumstances.
- ◆ Returning expatriates who lost their jobs may constitute a total of 200,000 unemployed persons.

⁵ MEOT (2014). SME Strategy. A road map to 2020. MEOT and UNDP, Beirut.

⁶ Dibeh, Fakh and Marrouh, 'The poor and marginalized in Lebanon: labor market challenges and policy implications', Sahwa, (2016)

Unemployment within specific groups, like youth and women, or more vulnerable communities such as migrant communities and refugees, is expected to be more severe. Furthermore, it is unlikely that the Lebanese economy will be able to create new employment or even maintain those that already exist in the short term, without the implementation of a recovery and reform strategy..

In the face of these crises, **the humanitarian aid sector in Lebanon is finding it difficult to respond effectively and is unsure of where to begin.** Donors are accustomed to providing direct humanitarian support in crises, and those who want to support employment for women, youth, and refugees are narrowly focused on skill-building and job-matching approaches that are less applicable and impactful in the current context, where employers are going out of business. As these programming models prove less effective amidst severe shocks, donors and implementers seek understanding of how to better serve, promote recovery, and build resilience against future shocks among increasingly vulnerable groups in a crisis of this scale.

Against this backdrop, we acknowledge that, in fragile contexts, not only are markets volatile, they are also adaptive and essential for resilience. The aid sector needs solutions that build a deeper understanding of those resilience capacities, how they combine to best contribute to resilience, and how to program effectively to strengthen them. A move beyond traditional handouts and job training to support local actors is key to improving resilience at scale. Overall, the dramatic developments in the country call for an agile and multi-faceted response to reverse the implications of the crisis and put Lebanon back on a sustainable growth path. The development of productive sectors of the economy to stimulate employment, entrepreneurship, and food security emerge as clear priorities for action and investment.⁷

⁷ UN Strategic Development Cooperation Framework (UNSDF 2022).



Research Objectives and Methodology

3. Research Objectives and Methodology

To promote interventions that address these complex crises and inform more effective economic interventions, Mercy Corps contracted Agora Global and Economic Development Solutions (EDS) to conduct an exploratory research project in Lebanon to **determine which factors or capacities best contribute to the resilience of micro and small enterprises and the functions and actors that support them.** Lebanon's compounded crises undoubtedly represent a significant challenge to business performance. Having gained an understanding of the nature and severity of this challenge, the key question this research seeks to answer is to what degree these challenges vary according to different characteristics of the firms and markets in which they operate.

This research is in line with Mercy Corps' use of USAID's Market System Resilience Framework. The framework provides a comprehensive view of the interaction between different components and actors in market systems, and the impacts on them in a shock. It also puts forth a set of resilience capacities, which are viewed as key capabilities and actions of market functions and actors that allow them to respond to and manage shocks. These resilience capacities were used to categorize and incorporate questions and indicators in the data collection instruments.

Agora and EDS engaged with Mercy Corps to refine the research objectives and define a methodology which would be academically rigorous and useful for MC programs in Lebanon. During a thematic literature review, we uncovered the latest iterations of the World Bank Enterprise Survey (WBES). WBES is a high quality, globally utilized data collection exercise which collects firm-level data including panel and fresh sample data at regular intervals to produce representative data on performance and constraints to businesses nationally. WBES was implemented in Lebanon in 2019 and there was an additional module implemented with a panel of firms in November 2020 to examine shock response. This provided nationally representative, timely, high-quality data for firms of 5-19 employees covering the vast majority of our quantitative topics of interest. As such, this was determined to be a key part of the methodology.

The primary research sought to purposively sample those firms that had performed particularly well (**thrivers**) or particularly badly (**divers**) because of the shocks, while also capturing data on the situation affecting most businesses who have lost some proportion of revenue but who continue to trade at a reasonable level (**survivors**).⁸ Both the primary and secondary (WBES) datasets were categorized as thrivers, divers, or survivors, and analyzed for any systematic differences between these categories. Given sample sizes and purposive sampling, analysis focused only on correlation but looked for triangulating qualitative data to test hypotheses.

The research project was divided into two main phases: 1) scoping with small-scale primary data collection and 2) large-scale primary data collection.

Agora developed a methodology to address this research question consisting of synthesized analysis of two longitudinal secondary datasets with a primary mixed methods survey of 121 microenterprises in four regions of Lebanon. This was complemented by secondary literature analysis and additional qualitative research methods focused on broader market actors implemented in two sites.

⁸ Two different approaches were used to triangulate data on the key outcome variable of firm performance. Firstly, self-reported change in turnover was used to classify firms as thrivers, divers, or survivors. Secondly, the research team triangulated the results with qualitative information collected to finetune and reach a better-informed classification.

Three main methods were employed to deliver on the research questions.

1. A mixed methods survey tool of microenterprises was designed in collaboration with Mercy Corps. The study relied on turnover as a main quantitative indicator that allows the division of MSEs into the three categories of thriver, diver, and survivor. This survey was developed using the WBES 2019 and 2020 as a departure point, as well as Mercy Corps' MSR Framework as a reference. This made it possible to compare the small-scale primary sample to the nationally representative WBES sample.
2. Comparative analysis with WBES 2019 and WBES 2020 focused on "small firm" categorization, with a specific focus on the "Covid Module".
3. A qualitative data collection with the surveyed firms to triangulate qualitative findings with in-depth analysis of firms' behavior in a context of crisis.

As a follow up to the initial data collection, some of the firms that were initially surveyed were contacted again in June 2022 to discuss the way crises continued to affect them, particularly the changes brought on by the situation in Ukraine, as well as the evolution of their respective resilience strategies. These case studies are annexed to the report.

Given that statistical representativity was not possible for our intended respondents, to answer our research question more effectively, we sought overrepresentation in the sample of two groups—those that 'thrived' and those whose business failed because of the crisis, 'divers'. We knew from the analysis of the WBES data that, for the majority, their businesses suffered to a degree but they continued with their livelihoods, i.e., they had not closed and were not imminently going to close. Based on a pragmatic calculation of financial and temporal capacity for data collection, we determined a target sample size of 120 businesses across four regions in Lebanon stratified according to the categories of "thrive", "dive", and "survive" in equal proportion.⁹

Geographically, based on available evidence from the WBES analysis, we wanted to ensure covering some regions where we considered that significant independent variables might be over- or under-represented. While we were not stratifying the sample according to these subsets, we wanted to ensure that they were not systematically omitted by the design of the survey. These characteristics included the prevalence of different nationalities, prices of common inputs, propensity for trade, and connection to international networks. As such, we sought to conduct data collection in four locations—Chtoura, Halba, Tripoli, and Hamra in Beirut.

Location	Divers	Survivors	Thrivers	Total
Chtoura	9	10	11	30
Halba	11	10	8	29
Hamra	11	9	12	32
Tripoli	10	9	11	30
Total	41	38	42	121

Table 1: Sample categorisation by performance and geography.

⁹ WBES and PEA Survey data indicate 2-8% of enterprises fall into both the "thrive" and "dive" categories, so purposive sampling methods were needed to identify this quota.

Number of Employees	The average number of employees was 2.5.
Informality	77% of the sample operated as registered businesses, i.e., at the commercial registry. Just 2.6% of the sample were either permanently or temporarily closed. Formality was a continuum and interpreted differently; some firms paid taxes, some had a business license, some may have simply followed local custom for establishing their business. Less than 20% of the sample were registered with the NSSF while 64% reported being registered with the municipality.
Business Networks	28% of firms were members of a formal business network of some form and over 53% of those were members of a chamber of commerce. The next most common formal association was a guild with 28% of the formal members within the sample holding this type of membership.
Gender and Demographics	In terms of gender ownership, 81% of firms in the sample had no female owners while 12% were solely owned by women. Only 5% of the firms were Syrian-owned, and Syrians accounted for 20% of the full-time workforce within the sample. Half of the firms had been established for less than one decade.
Household Characteristics and Education	<p>For micro enterprises, it is difficult to separate the individual or household from the business and so a description of certain household characteristics of the sample is relevant:</p> <p>The sampled business owners were overall highly educated with three quarters having completed university or tertiary education. The average household size was 4 but there were 15 firms whose owners lived in households of 6 or more people, with the highest number of household members being 11.</p>

Table 2: Key Characteristics of Surveyed Firms.



Findings

4. Findings

4.1 Structural Characteristics of the Firm

A firm's structural characteristics - the sector, owner, size - before the crisis influenced their performance and resilience as the economy deteriorated. These characteristics also drove the responses businesses could take; as addressed below, this makes it challenging to disentangle findings around the effectiveness of those responses from a firms' ability to take those responses.

4.1.1 Firm Size and Turnover

Figure 1 shows the relative performance of firms according to their turnover prior to the crisis. While it is clear that most firms were concentrated with smaller turnovers prior to the crisis, and reduced that turnover by 50-70%, the more interesting stories in the data were the positions of the outliers. Larger firms coming into the crisis performed poorly; only one of the firms with a larger turnover maintained that turnover, while no firms that were larger coming in increased their turnover. Conversely, of the firms whose turnovers increased from September 2019 (over 100% on the graph), the vast majority were very small coming into the crisis. These dynamics are confirmed by the negative average relationship between 2019 turnover and the change to 2020.

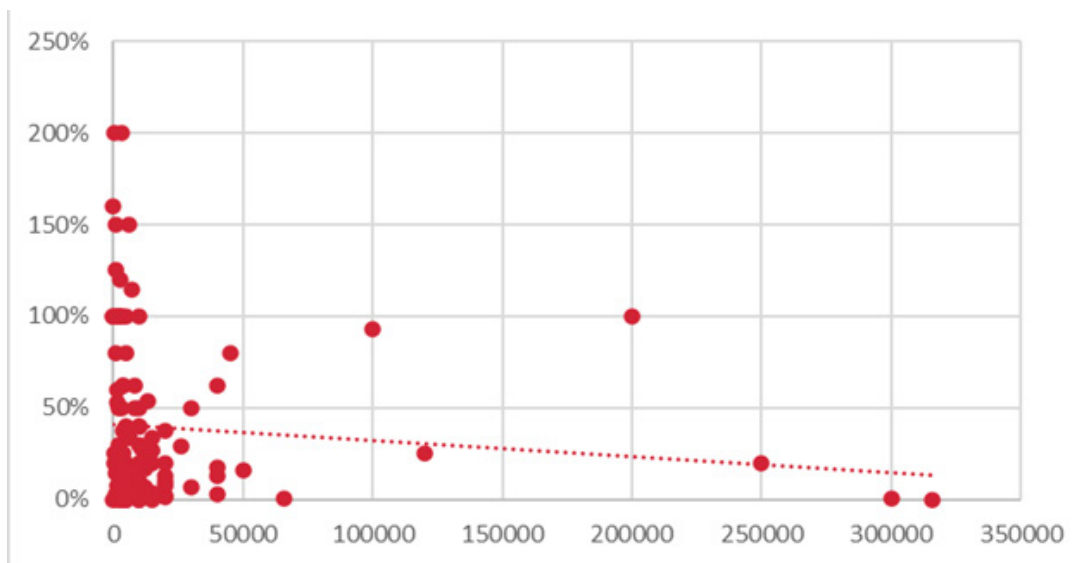


Figure 1: Relative performance of firms according to their turnover change prior to the 2019 crisis.

Figure 2 below presents similar data to Figure 1, but presents three data series for clarity, using an inverse log x axis. One can see that those who performed worse—the divers—were spread fairly evenly across the turnover spectrum, i.e., among those who reduced turnover the most, there were firms that were of a wide range of sizes before the shocks. However, it is interesting to note that the largest firms were exclusively in this category—none of the larger microenterprises performed well out of the crises. Consistent with that, the thrivers—those who performed best in the crises—were exclusively those that started the period smaller in terms of turnover.

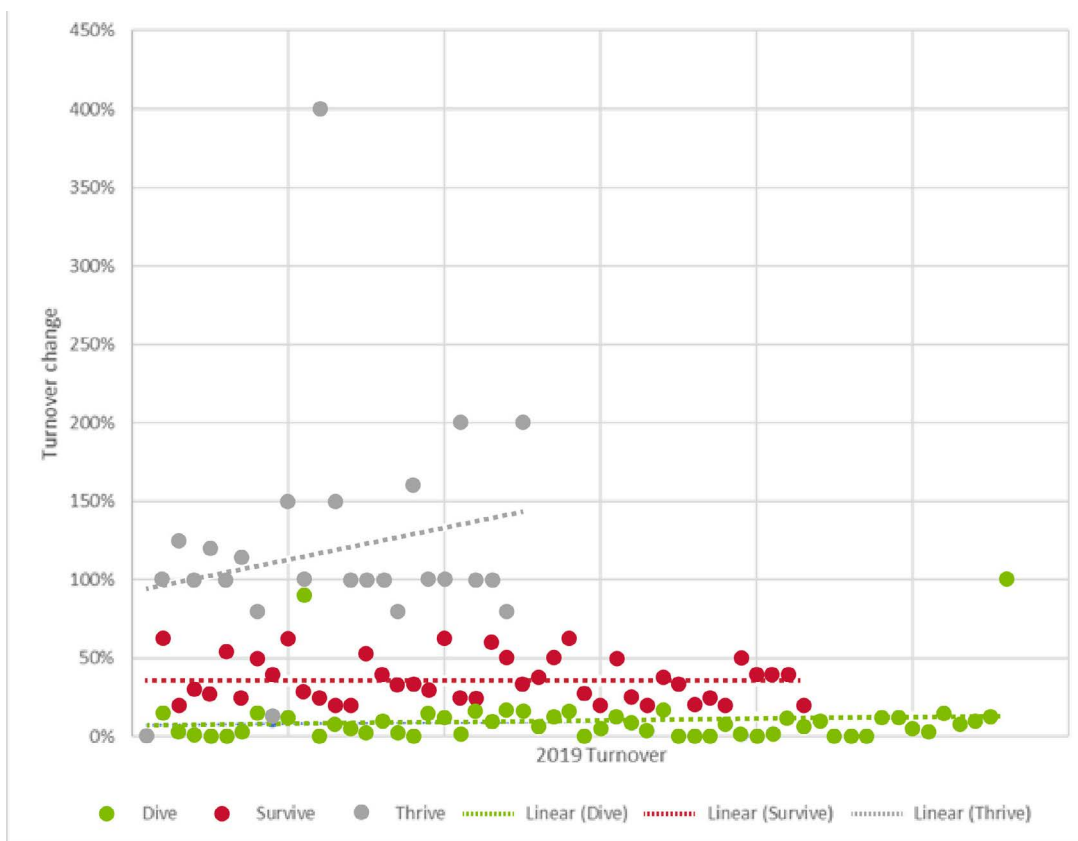


Figure 2: Relative performance based on firm categorisation (dive, survive, thrive).

4.1.2 Firm's Sector of Activities

Table 3 shows the distribution of sample enterprises per sector of activities. Although this table should be treated with caution due to the purposive sampling methodology, it does suggest that thrivers were more likely to operate in the service sectors compared to others. This might be due to the particular mode of production for manufacturing businesses prior to the crisis and their heavy reliance on cheap imported raw material, while the retail and trade sector was significantly hit by the reduction in purchasing power following the depreciation of the Lebanese pound. Enterprises in the services sector seem to have been more likely to adapt their processes (within 2 years) to the crisis shock of October 2019.

Sector	Divers	Survivors	Thrivers	Total
Services sector	24%	45%	53%	
Retail & Trade	61%	45%	36%	
Manufacturing	15%	11%	11%	
Total	100%	100%	100%	100%

Table 3: Distribution of firms per sector of activities.

There was little variation in the exporting behaviors of firms in the different performance categories. Across the board, firms in the sample were focused on the domestic market, with %91 of sales to this market, which aligns with expectations given their respective size and sector of operation. This ranged between %95 for survivors and %94 for divers through to %84 for thrivers. Indirect exports were similar for the different performance categories, but it would appear to be that the targeting of direct exports is where the thrivers benefitted, with %10 of sales on international markets compared to %4 for the other categories. Predictably, exporters performed better, but not by as much as may be expected given the currency market situation. A likely explanation for this is that those enterprises that were targeting export markets saw a change in their cost drivers. These firms began to face more challenges caused by the high cost of inputs, especially if imported, and as a result, their competitiveness in these markets dramatically decreased.

4.1.3 Firm's Degree of Formality

Although limited, formality appears to be a factor in the performance of the firms, as divers were more likely to be informal (27%) compared to survivors and thrivers (18% and 19% respectively). 50% of thrivers were registered, compared to 24% and 34% of drivers and survivors, respectively, indicating that registration and licensing from relevant ministries had a more significant influence.. Registration with a specific ministry reflected a higher entry cost and more protected and exclusive economic activities, and ensured in certain aspects minimum standards for the quality of products and services. This is particularly relevant to food and non-food manufacturing firms, but also businesses such as travel agencies, tobacco wholesalers, pharmacies, and exchange bureaus.

Status	Divers	Survivors	Thrivers	Total
Not registered	27%	18%	19%	21%
Ministry of Industry registration	41%	53%	42%	45%
NSSF registration	12%	21%	11%	15%
Municipal registration	51%	53%	42%	49%
Have appropriate licenses from relevant ministries	24%	34%	50%	36%

Table 4: Registration status of firms.

4.1.3 Firms' Ownership

The performance of the firm was highly correlated with the education degree of the business owner.. Among businesses in the diver category, owners were three times more likely than the sample average to have no education (9.1%) and twice as likely to have only primary education. This relationship is clear and consistent. The 'survivors' were most likely to have completed secondary education while the thrivers were almost twice as likely as the divers to have a university degree.

Poorer performance was also associated with larger households of business owners. The divers were twice as likely as the sample average and 10 times more likely than the thrivers to have a household of six or more people.

Although the thrivers were more than twice as likely to have three or more income earners in their family than the divers, there was no especially strong correlation between firm performance and the number of income earners within a household. It seems reasonable that having more revenue sources distributed among fewer persons would lead to better stability at the household level.

Around three quarters, or 72%, of the sampled businesses were owned by someone for whom this is their sole business. However, a higher proportion of the thrivers (36%) were owned by people with two or more businesses. It is difficult to conclude a causal relationship here but potentially, owning multiple businesses is a sign of a higher level of entrepreneurship and thus such businesses might be more likely to thrive (see section 3.3.2).

There was no significant positive correlation between gender of ownership and firm performance. Women-owned firms represented just 12% of the sample and 17% of thrivers, and while 81% of firms had no female ownership, this percentage was lower for thrivers at 72%. Interestingly, this diverges from the WBES data where higher female ownership was correlated with a worse performance. The worse performance found in the WBES is most probably due to the barriers faced by women-owned businesses in Lebanon's enterprise ecosystem, e.g., higher difficulties in accessing finance, maneuvering administration for various permits, and managing relations with suppliers and clients because of socio-cultural barriers facing women in business. The slightly better performance of women-owned businesses in our sample could be related to the overall collapse of the traditional business ecosystem that tends to favor men-owned enterprises. Although it is speculative to draw any conclusions from the fact that thrivers had a greater percentage of female employees—an average of 35% vs 24% for divers—this indicator may suggest that the labor force of thrivers was more skilled than that of others.¹⁰

4.1.4 Firm's Age

There was an interesting relationship between the age of the firm and its performance, as diving firms were considerably older than thriving firms. 58% of thrivers were under 10 years old while for divers, this was 36%. Conversely, 17% of divers were 30-50 years old compared with just 6% of thrivers. This slightly differs from the WBES data, however, the inverse relationship between change in sales during crises and the experience of the firm managers found in our data are in line with the WBES. Top managers in diving firms had an average of 22 years of experience compared to 18 in survivors and 13 in thrivers.

One potential explanation for this finding is a dependency on a certain type of management approach and lack of alternatives for long-established businesses, and similarly that experienced managers were slow to diversify their management practices. This is especially true for inherited businesses that were passed down through the family and, as such, the new recipient of the business runs it as it has always been run.

¹⁰ Higher percentage of women workforce (in non-agricultural sectors) is often associated with a higher level of skills; women's economic participation increases with higher level of occupational skills.

4.2 Networks and Relationships

From the WBES data, the smaller the firm, the less likely it was to be part of a business network organization (BNO). However, membership was still 90% for the smallest firms in the WBES survey data. Those which were part of a BNO did better following shocks—8.2% grew compared to 0.9% which did not. When the micro-enterprises (less than 5 employees) of our primary survey were considered, BNO membership dropped to 28%. In line with the WBES results, a far higher proportion of thrivers were part of a formal business network—42% were members against 20% of divers and 26% of thrivers.

4.2.1 Business Network Organizations

Our sample showed a clear relationship between the type of formal association in which a firm is a member and their post-shock performance. As shown below in Figure 3, 40% of thrivers are members of a guild against 14% of divers; the reverse is true for chamber of commerce, with 75% of divers being members of a formal network holding this association and 33% of thrivers. Membership in a chamber of commerce is necessary if a business wants to scale up and formalize its activities, especially regarding direct imports of goods, but more importantly potential exports. Small and micro businesses that do not engage in export do not see direct benefits from chambers. To a certain extent membership in a chamber of commerce is related to the size and type of activities. Membership in professional guilds provides more “protection” to businesses by offering some kind of exclusivity and limited entry cost to potential competitors.

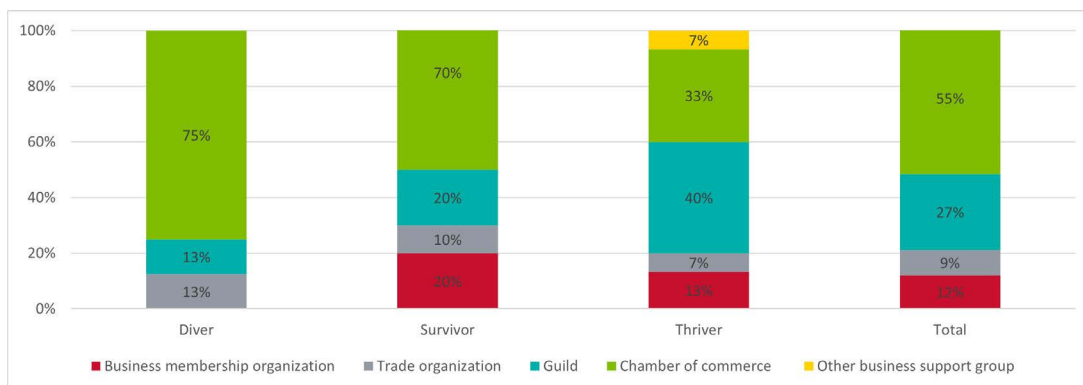


Figure 3: Business Network Organizations and Enterprise Status.

4.2.2 Sector of Activities, Education, and BNOs

The majority of businesses belonging to a guild or a business membership organization were in the services sector, while those belonging to trade organizations or a chamber of commerce operated in the retail sector. Manufacturers only belonged to a guild or a chamber of commerce, (see below in Figure 4). It is important to note that almost none of the businesses interviewed reported direct benefits from their BNO membership. Overall, members of guilds were more likely to be thrivers, though this may reflect that they worked in high-skill service sectors and/or had specialized products, likely the element impacting the performance in time of crisis rather than the membership per se. For example, 86% of guild members were holders of university degrees, compared to 55% of our sample average. This is true for all types of BNOs. In fact, as shown below in table 5, while 26% of the sample average did not complete tertiary education, the percentage of lower education level was limited to 7% of members in a chamber of commerce and was zero for all other types of BNOs.

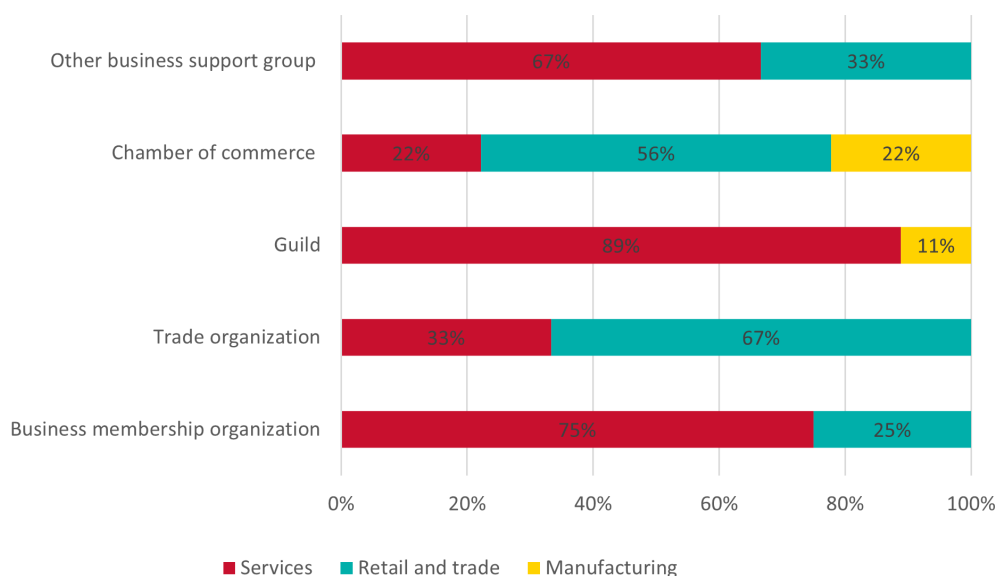


Figure 4: Membership in BNO per sector of activities.

	Business membership organization	Trade organization	Guild	Chamber of commerce	Other	Sample average
Incomplete tertiary and below	0%	0%	0%	7%	0%	26%
Tertiary	50%	0%	14%	20%	0%	19%
University	50%	100%	86%	73%	100%	55%
Total	100%	100%	100%	100%	100%	100%

Table 5: Level of education per BNO groups.

4.2.3 Informal Networks

Out of the enterprises that reported good levels of cooperation within their informal networks, 56% were divers, 40% were survivors, and only 4% were thrivers. One potential explanation for this is that informal networks might be used by divers for functions from which they are otherwise excluded, such as the management of supply or access to specific markets. This was particularly true in clusters, microenterprises of the same sector in the same location: Fadi, the owner of a car maintenance workshop in Tripoli, described how he would cooperate with similar businesses to ensure availability of certain maintenance pieces. In this case, the horizontal cooperation would include ad hoc common procurement schemes. Thrivers may tend to use less traditional ways to procure and sell by targeting emerging market segments that are more likely to own the business and buy its product through innovative ways of interaction, e.g., social media versus informal networks. In fact, it seems that informal networks for collaboration were less prevalent among more innovative organizations, and there was more evidence instead of more conventionally competitive business behaviors. The reader can refer to the case study section, in which a newly established Tuk-Tuk small taxi company worked on preserving its competitive edge through direct competition with similar businesses.

4.2.4 Political Connection and Bribery

According to the WBES data, political patronage had no effect on how well a firm performed during the crisis. All firms with political ties had declines in employment and sales, and their sales fell most severely, demonstrating an inverse correlation. Similarly, no firms that reported paying bribes increased sales during the crisis. While political patronage and bribery¹¹ were major factors of growth prior to the crisis, they seemed to be irrelevant to aftershock survival. Additionally, we found no evidence in our sample of businesses that did not pay bribes or have political patronage and consequently suffered from loss of turnover or closure.

Overall, it seems that factors that favored growth in non-competitive markets prior to the crisis, were not relevant to the performance of firms during the crisis. In fact, the compounded Lebanese crises were a direct hit to the Lebanese socio-economic and political systems. Political patronage and formal and informal networks set pre-crisis were themselves shaken and, as such, much less efficient in ensuring aftershock performance. Based on other data related to the types of business that the different performance categories were involved in, the age of the businesses, and behaviors around innovation and finance, the most likely explanation for closer networking being more common among divers is that they follow path-dependent – i.e., **system dependent** - business models. This is less true for thrivers who were far more adaptive, innovative, and competitive in their outlook.

This section looks at elements related to the “traditional” form of networking in the Lebanese business ecosystem pre-crisis and does not look at all forms of social capital that may be used by divers, survivors, and thrivers alike to cope with the crisis. In 2021, Mercy Corps further analyzed the effect of social capital in supporting small firms’ recovery after the Beirut port blast.¹²

4.3 Diversity of Financial Sources and Income Streams

4.3.1 Access to Inputs

The compounded crises created significant financing challenges for firms, impacting both cash flow and investment capacities.

“The increase in prices broke my back, you don’t know how to do your finances anymore. I do finances at night and put aside money for my suppliers tomorrow and then I wake up and realize that money isn’t enough because prices increased overnight. I don’t get the stock I used to get in the past. I have 6 bottles of ketchup, 10 bottles of Pepsi, and I buy and sell by the piece...”

— Retail shop owner, Chtoura

Cash flow issues were primarily related to the firm’s capacity to pay suppliers and, thus, to procure inputs and to a lower degree related to the firm’s capacity to receive payment from clients. The crisis led to a collapse of value chain financing arrangements that prevailed prior to October 2019, i.e., suppliers would use credit lines from the bank, mostly on imported goods, while businesses would use (informal) credit lines with suppliers. Across all categories, access to inputs was seen as a major obstacle, with 39% of divers ranging through to 42% of thrivers seeing this as the most significant challenge. Overall, inputs were seen to have increased in cost, reduced in availability, and decreased in quality as a result of the crises. 86% of the sample reported a cost increase in inputs, 45% a reduction in availability, and 21% a reduction in quality.

¹¹ Especially in relation to taxes and double accounting books, permits.

¹² Refer to Mercy Corps (2021) Social Capital in the wake of disaster. How small businesses used social capital to cope with, recover and respond to the Beirut port explosion.

To cope with the issue of cash flow and payment to suppliers, most firms lowered their volume of sales and activities, corresponding in most of the cases to the “none of the above” option as shown in the figure below. Most businesses preferred reduced and minimal activities to definitive closure, even if they ended up operating at break-even or with minimal profits. Around a quarter of survivors and divers still used some kind of delayed payment with suppliers, which was not the case for thrivers. This reflects the tendency of thrivers to operate in nontraditional modes as they were more likely to not have used delayed payment prior to the crisis.

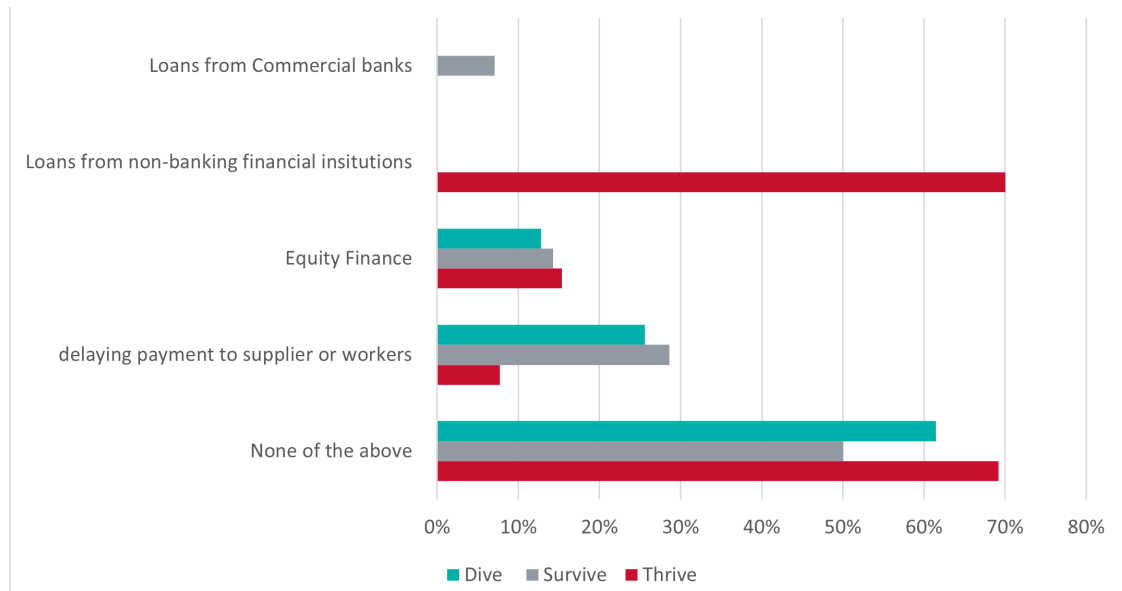


Figure 5: Firms' strategies to deal with cash flow shortages.

4.3.2 Financing Investment and Growth

According to the WBES data, over 75% of the smallest firms carried no debt, compared to 35% of larger firms. From our sample, around 60% of firms carried no debt. Most larger firms that did carry debt, carried it from multiple sources; whereas smaller firms were far more likely to have a single source of debt. This is consistent with the finding from our sample that thrivers were more likely than divers to carry two or more sources of debt.

WBES data indicates that 62% of the smallest firms, and 48% of all small firms, have not used commercial or other debt, equity, or payment restructuring to deal with cash flow shortages. Out of the remaining 38%, commercial banks and equity finance were the most common tactics (19% and 16% respectively). These findings are very closely aligned with those from our primary data, except for commercial loans, which were very uncommon for our sample.

"I just want to survive. Even if this means having to lose at the moment. We don't want to close. We chose to stay in the market. Things were going great. But now I can no longer invest in my business or implement new projects/ideas because all my money is trapped in banks."

— Skincare line business owner, Tripoli

In the absence of formal financing channels, firms refrained from new investment or reverted to alternative sources of financing in almost half the cases. Figure 6 shows that almost half of all businesses did not draw on any of the listed sources for financial support. There was a relatively even spread between the sources of financial support that were withdrawing from savings and income from other work. The differences between the various performance groups are perhaps the most interesting. As described above, the thrivers were more likely to own two businesses and more likely to live in households with three or more income sources. As such, they had a relatively diversified household income portfolio which is the first resource drawn upon in a crisis. Conversely, the divers were more likely to draw on savings.

One finding which confirms the prior hypothesis is the relationship between access to remittances and firm performance, where thrivers were almost twice as likely to have received remittances than divers. In the WBES survey, one third of all small businesses received remittances, which is considerably higher than in our sample. Given the currency fluctuation in Lebanon at the time of inquiry, the value of hard currency—fresh US dollars which were 'liquid' and could be used to purchase imported goods and services—was the real reason why remittances were so valuable. For example, a woman cloth-shop owner in Hamra used money sent by her children to replenish her inventory after prices went up significantly. Support from her children living abroad allowed her to sustain the business.

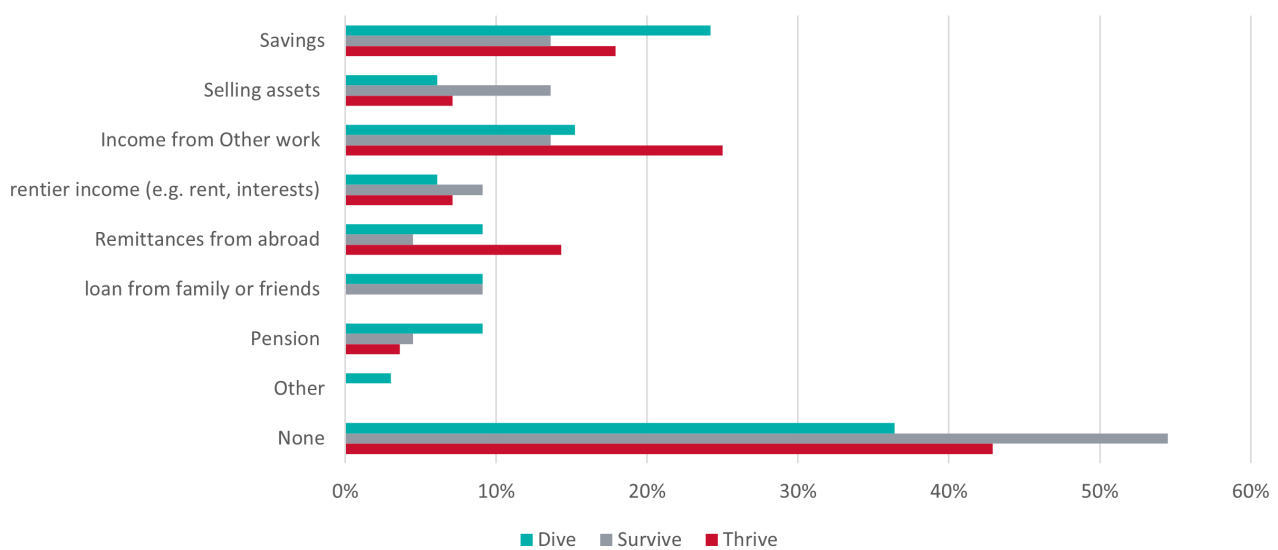


Figure 6: Sources of financing used by performance category.

4.4 Adaptation as Key Business Resilience Capacity

4.4.1 Adaptive and Innovative Behaviors

The findings from the quantitative and qualitative primary data show a distinction between “adaptive” and “non-adaptive” firms. Adaptive firms are defined as those which have introduced products or services and/or process innovations within the three years prior to the crisis. This distinction falls within the behavioral drivers of performance that have shown to be important for coping with the multitude of crises. **Firms that had adapted before the crisis were more likely to perform better during the crisis.** The figure below shows the distribution of thrivers, survivors, and divers by level of adaptation or innovation. 64% of thrivers had introduced products or process innovations three years prior to 2019, compared to 58% of survivors and 39% of divers. Therefore, thrivers were more likely to be innovative compared to the survivors and divers. This supports the theory that an innovative nature is important for resilience in a crisis.

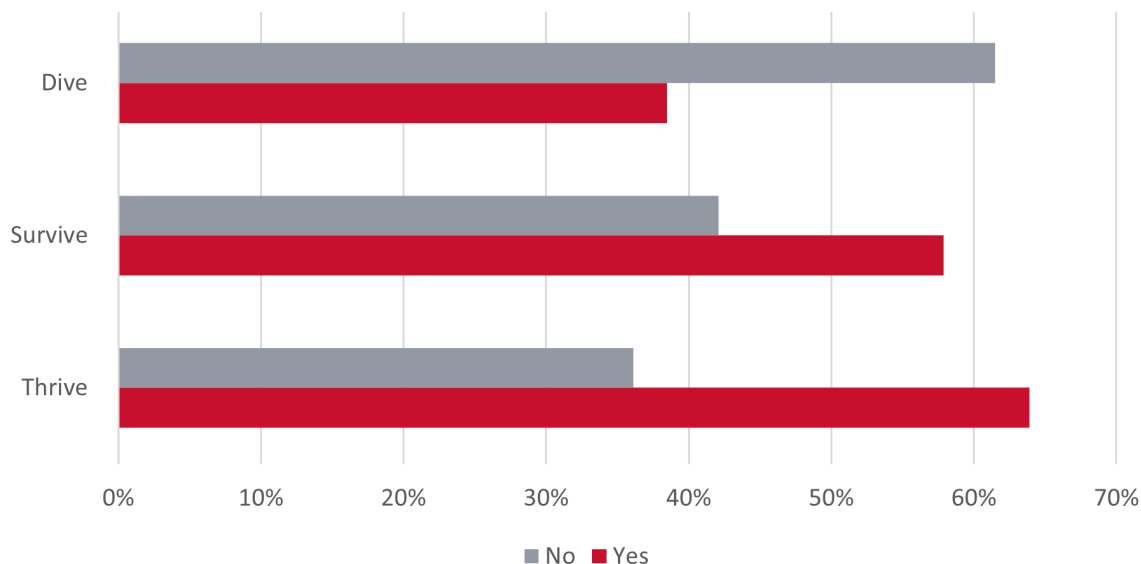


Figure 7: Relationship between innovation in 2019 and enterprise status
“Did the firm introduce new products or processes in the three years prior to the 2019 crisis?”

The most common type of innovation was offering a new product because of higher demand, i.e., product innovation. The second most common type of innovation was introducing modifications to an existing product to attract more demand (also product innovation). Changing products to reduce cost and internal process improvement to increase efficiency were also common (process innovation). On the other hand, shifting sectors due to push or pull factors was far less common as an adaptive strategy.

While innovations were broadly similar across performance categories, there were two noteworthy deviations. Thrivers were far less likely to have streamlined internal processes, focusing more on business expansion, i.e. **thrivers had introduced products as opposed to process innovations which may have helped them thrive through the crisis.** In fact, of the 27 firms that introduced process innovation, none were thrivers, two were survivors, and 25 were divers, for whom it was most likely the highest priority to implement austerity measures to cut their losses.

Among firms which did shift sectors, it appears that both thrivers and divers attempted the same actions, but their actions led to different outcomes. Both thrivers (25%) and divers (23%) reported that the main reason for their innovation was to be able to move to a new sector with higher demand. This was not the case for survivors, where only 3% of adaptive survivors reported sector shift as a driver for innovation/adaptation. Slightly more divers (14%) compared to thrivers (10%) reported that they had shifted sectors to reduce costs. The conjecture here can be that the action of thrivers to shift sectors in search of higher demand or lower cost was driven by opportunity and dynamism, while the same action attempted by divers was driven by desperation to cope with the situation. Survivors did not attempt the drastic move of shifting sectors and “played it safe” in the context of the challenging business environment and restricted their innovations to minor changes.

Products that were new to the market paid off more than products that existed in the market but were new to the given producer. 63% of innovative thrivers reported that their new product (or process) was in fact new to the market, while 87% of innovative divers reported that their new product was new to them, but not necessarily in the market. For instance, a small furniture shop owner in Hamra decided to start proposing to repair people's furniture when he realized this service was not offered in his neighborhood. A conclusion here can be that introducing products or processes that are new to the producer but not in the market is not timely for periods of crisis, and more focus should be placed on products that are innovative for the market.

“We have discounts and always check up on our customers. We investigate if sales are going down to see what the reason could be.”

— Organic food shop owner, Beirut

Thrivers who introduced new products, whether within the same sector or a different one, did so through a holistic approach that covered quality, price, and marketing. This is particularly important in the Lebanese context where consumers tend to perceive local products as lower quality and less trustworthy than imported goods. This finding is further confirmed by the case studies which showed the importance of the “4P mix” (product, price, place, and promotion).

The most common strategies adopted amongst thrivers were related to:

- ◆ Ensuring quality of products
- ◆ Increasing marketing and promotional activities
- ◆ Adjusting prices to meet customer needs
- ◆ Focusing on customer loyalty

Business owners reported strategies that included improving customer service either through dialogue, offering value-added services, or offering refreshments as part of the service; others offered discounts and promotional offers, and used online marketing through social media channels.

Thrivers were predominantly able to pivot their products or service offerings quickly using a lean approach. Examples include food outlets switching to take-away or delivery services, a board game café that switched to online game offerings, and fashion retailers switching to selling online. Moving online seems to have been beneficial in streamlining costs as well as increasing revenues. While most businesses increased online sales and revenues, they also reduced employment.

"I closed for several months because of the Covid lockdown before realizing that I have to turn toward online sales. My sales dropped during those 18 months, but now it's going back on track."

—Handmade accessories store owner, Beirut

Promotional offers and pricing strategies used by thrivers may have given them a comparative advantage over divers when it comes to price. 60% of thrivers believed they offered lower prices than their competitors, compared to 55% of survivors and 50% of divers. Lower prices were often associated with more adapted products and services, rather than being just a pricing or promotional strategy, such as the introduction of dress renting by a cloth retail shop in Chtoura.

In terms of quality, over 70% of divers considered themselves to offer better quality than their competitors, while fewer than 60% of thrivers and survivors had the same claims. Qualitative evidence suggests that the quality of most businesses categorized as divers was in fact low with many enumerators observing old stock, poor quality goods on shelves and in storage. This carries implications on the misperceptions of many businesses towards their position in the market, which led them to make inadequate decisions and strategies when coping with the crisis. The figure below shows that the largest share of divers believed they offered the best quality at the lowest prices.

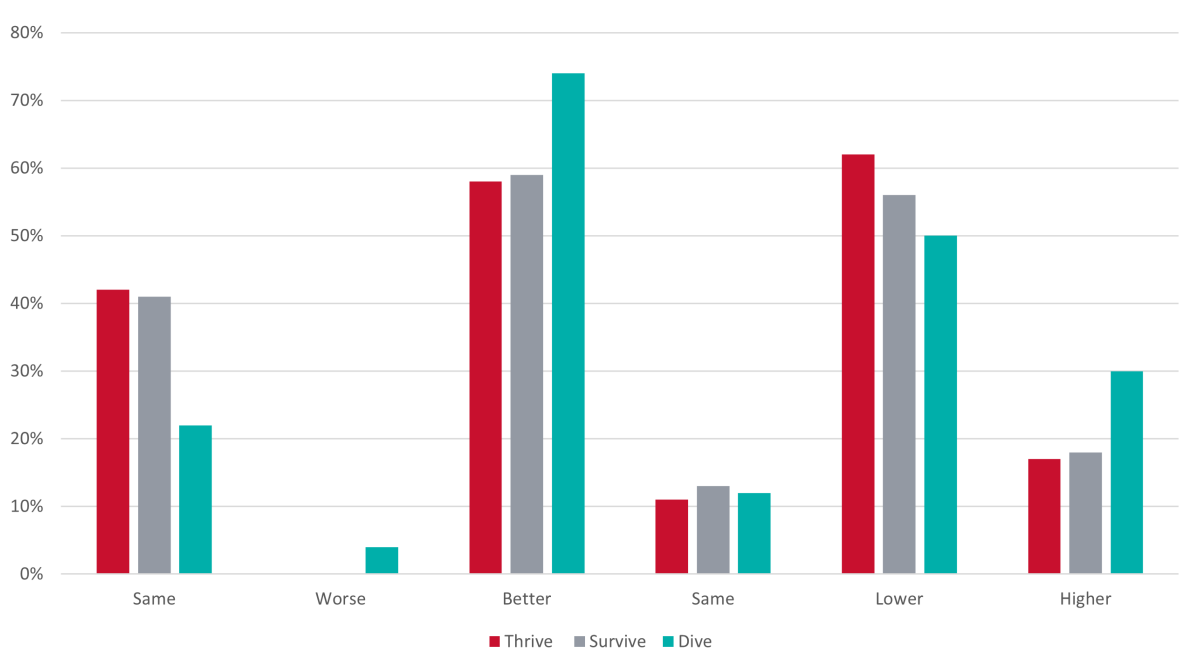


Figure 8: Comparison with competitors.

4.4.2 Perceptions Around Factors Contributing to Adaptation

The figure below shows the factors that business owners reported as important for innovation. Among these, informal networks of friends and neighbors was deemed the most important factor with 78% of respondents ranking it as important or very important (43% believed it was very important). Interestingly, thrivers were actually less likely to cite this factor as important to their innovation efforts. This can lead to the conclusion that these firms were less likely to be active users of these networks or perceive them as valuable.

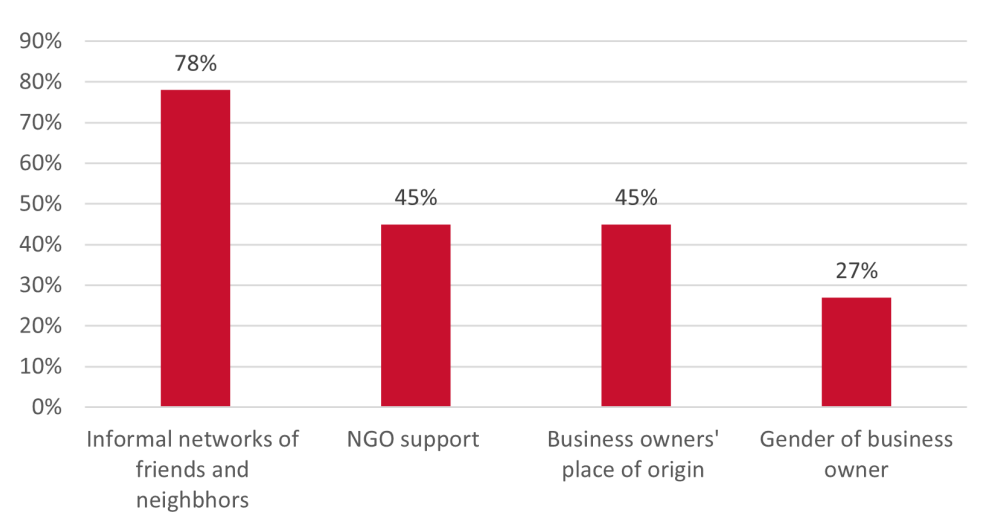


Figure 9: Perception of factors deemed important for innovation and adaptation.

45% of businesses believed that NGO support plays an important role for innovation and adaptation. More thrivers (56%) believed in the importance of NGOs compared to survivors (45%) and divers (33%). It is possible that the relationship between thrivers and receiving NGO support was direct—perhaps these firms received direct support from NGOs or they marketed products towards NGOs as part of the humanitarian response. Interestingly, however, support from NGOs was only raised twice in the qualitative responses as highlighted below. Therefore, more research into the impact of NGO support programs on the innovative activity at the level of MSME's is needed for more concrete conclusions.

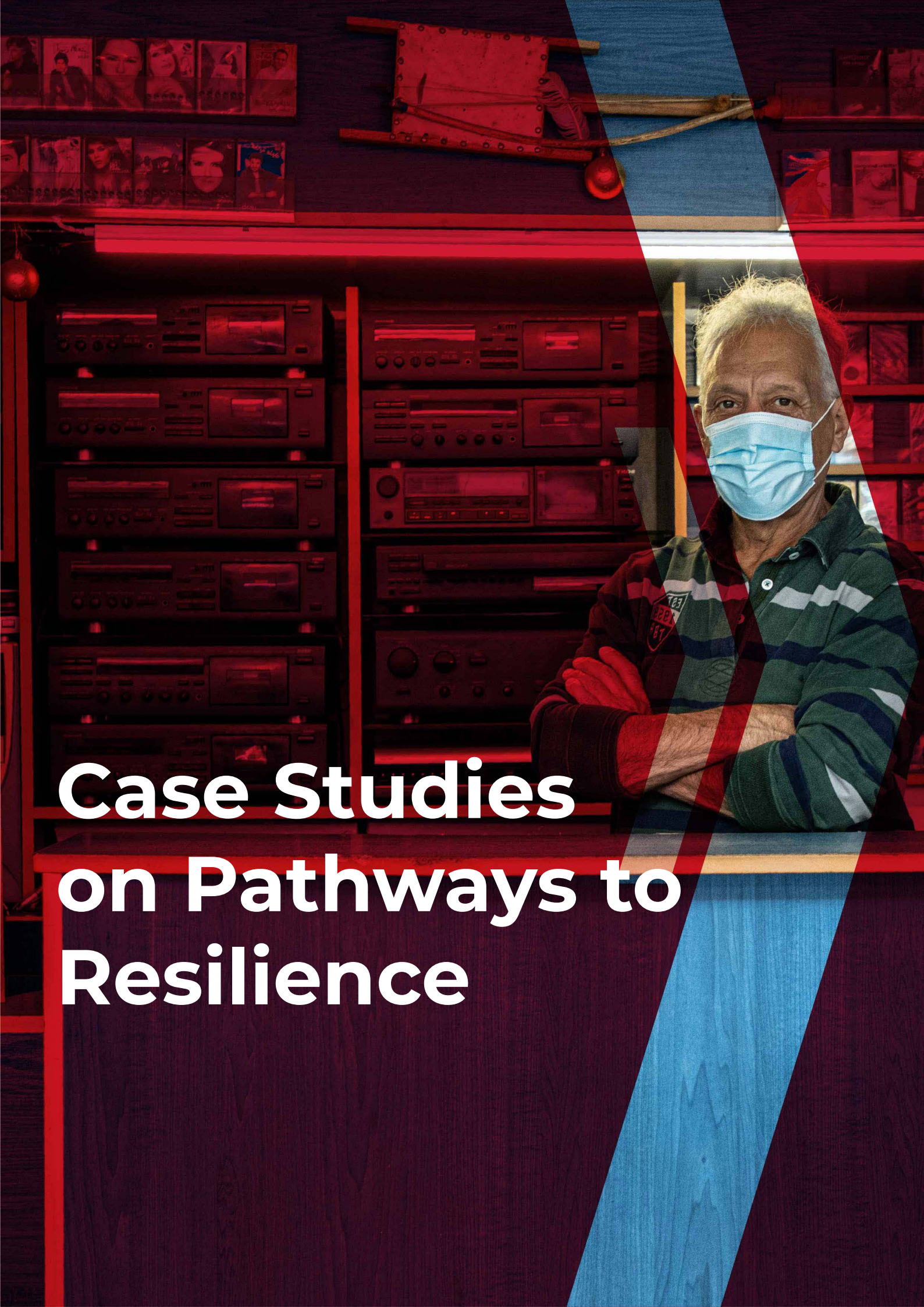
“The Syrian refugee issue has hurt me the most. UN and other organizations help the refugees and provide healthcare and multiple types of aid and help. That is why they can set their prices much lower than I can. We are unable to lower prices to the level of the Syrian carpenters, and thus are unable to compete with them.”

— Carpenter, Chtoura

When considering the business owners' “place of origin”¹³ as an important factor for adaptation and innovation, a pattern similar to that of the NGO support is observed, where thrivers (52%) were more likely to cite this as an important factor compared to survivors (41%) and divers (33%). In addition to place of origin, nationality was also reported as important for adaptive and innovative activity. 30% of respondents see nationality as playing a substantive role in their innovation (although 93% of the sample consists of Lebanese nationals). Some of the underlying causes of these perceptions are clear from qualitative data which points to issues related to competition with Syrian business owners and the perception that, in the recent past, Syrian refugees had far greater access to aid and support from international donors than vulnerable Lebanese nationals.

Lastly, 27% of business owners viewed the gender of business owners as playing a role in innovation. This perception did not vary notably according to the gender of the respondent, which is in itself interesting as it means both male- and female-owned businesses viewed their gender as being equally important in their innovation. The disaggregated data shows that 33% of divers consider gender to be a ‘very important’ factor facilitating innovation compared with 9% of survivors and 0% of thrivers.

¹³ This factor refers to whether the business owner in location X, is originally from this location. This is an important element when considering the complex regional and confessional dynamics of Lebanon.



Case Studies on Pathways to Resilience

5. Case Studies on Pathways to Resilience

The case studies highlight how businesses with strong resilience capacities maintained sales by modifying and/or improving their products, finding the right place and pricing, and using the right promotion strategy, and matching the business strategy to the changing economic conditions. Others were not able to successfully adapt, and suffered lost sales as a result. However, businesses' structures also affected which actions they could feasibly take in response to the crisis:

- ◆ A product innovation strategy was successful for an ice cream shop in Hamra, but not for an artisanal handbag business in Tripoli. The Hamra neighborhood in Beirut provided access to middle-class and upper middle-class customers who were still ready to pay relatively high prices for high-quality ice cream. On the other hand, an artisanal handbag business seemed to struggle to find customers, potentially because demand for its products was highly elastic when prices increased significantly. Furthermore, being located in Tripoli (a significantly poorer city compared to Beirut), the handbag business could not build a regular and reliable customer base. Reputation and word-of-mouth promotion for ice cream in a university-centered and middle-class community like Hamra seemed to be more effective and better adapted to the type of product, compared to online promotion of alternative handbags.
- ◆ Similarly, some businesses were able to focus on innovative products and lower price services. This was the case for a Tuk-Tuk Taxi company which offered an innovative product, at a lower price than conventional taxis, in a city that suffers from high poverty and low income. In this case, promotion through social media was effective in attracting a young consumer base and mitigating a potentially negative image of Tuk-Tuk, a mode of transportation that did not exist in Lebanon prior to the crisis.
- ◆ Likewise, businesses that were unable to match their offerings and business model to their customer base had difficulties in sustaining their activities. In the instance of the Chtoura sweetshop, the location of the business, the relatively high price of their goods brought on by rising supply prices, and the decline in local customers' purchasing power did not work in their favor.

¹⁴ Syrians are often able to open businesses based on an agreement with a Lebanese business owner who would ensure the "legality" of the business toward local authority by remaining the official owner of the businesses. In exchange, he would receive a part of the profit. Given the difficult economic situation and the low profit of the sweet shop, it seems that in this case, the Lebanese owner who operates an exchange bureau nearby, has refrained from asking for a profit from Abdallah, instead benefiting by reducing potential competition from having another exchange bureau that could potentially replace the sweet shop.

Case Study 1:

Abdallah's "diving" sweets shop in Chtoura, Bekaa

Lebanese-Syrian joint venture. Abdallah, a refugee from Syria, runs a sweets shop in Chtoura. At first, Abdallah used to work for the Lebanese founders of the sweets shop.¹⁴ When the compounded crises hit Lebanon, the owners decided to quit and pass on the business to him. Abdallah managed to secure enough funds to purchase the equipment and materials already present in the shop (stands, trays, fridges, etc) from the previous owners, otherwise he would have been left without a job and income. The previous owners, who also ran an exchange shop nearby, had an interest in having someone maintain the sweets shop so that they could avoid having an exchange shop open in its place and increase their competition. **Increased prices of inputs.** The numerous crises took a toll on Abdallah's business. Due to inflation and currency devaluation, the purchasing power of customers decreased. Customers were no longer able to afford sweets; instead, they focused on providing essentials to their families. Additionally, when people did buy sweets, they did so in much smaller quantities than before.

Place. The location of the shop in Chtoura Square proved to be detrimental. Most of the client base was Syrian, with even lower purchasing power than Lebanese customers. Chtoura Square is also mostly visited for its exchange offices; it is not a residential spot. People usually buy their groceries or sweets from shops close to where they live. However, the location did provide the business with some new customers who were usually just passing through Chtoura and happened to stop in the square.

Employees lay-off. At the time of the first interview in June 2021, the business had been struggling. There used to be a larger number of employees, most of whom were laid off in the transition between owners, while simultaneously prices had to be increased. Abdallah highlighted that the decrease in the number of employees was necessary as the profit from the shop barely covered one salary (his own). He continued trying to maintain prices lower than big chains like Sea Sweet and Hallab, both of which have branches within 300 meters of his shop.

High cost of production. Abdallah was contacted again one year later, on June 2022 ,27. He noted that things are getting gradually worse. With the gradual increase in prices of raw materials, he had to increase his prices as production costs rose. Moreover, as inflation had not halted, prices continued to increase every day. The surge in prices led to lower profits as he could not price his goods to match the USD rate (due to his customers' low purchasing power).

Further price increase because of the Ukraine crisis. Furthermore, especially in the last two months before the follow-up, the cost of electricity increased dramatically due to the global crises of wheat and fuel supplies. Abdallah's earnings hardly sufficed to pay his rent and electricity; in fact, he had to take on debt to his landlord after failing to make one rent payment. In the future, he is uncertain of how he will be able to pay for it. His landlord insists «If you can't pay your rent, why are you still open? Give me back the shop». Abdallah said he was not able to pay for his own salary and that he was on the verge of closure.

¹⁴ Syrians are often able to open businesses based on an agreement with a Lebanese business owner who would ensure the "legality" of the business toward local authority by remaining the official owner of the businesses. In exchange, he would receive a part of the profit. Given the difficult economic situation and the low profit of the sweet shop, it seems that in this case, the Lebanese owner who operates an exchange bureau nearby, has refrained from asking for a profit from Abdallah, instead benefiting by reducing potential competition from having another exchange bureau that could potentially replace the sweet shop.

Case Study 2: Nuhad's "diving" handbag shop in Tripoli

Product differentiation. In Tripoli, Nuhad owns a business selling artisanal vegan handbags. Given her early interest in design, she initially worked as an interior designer, while her family ran a small store selling shoes and handbags. After noticing that an increasing number of people in Lebanon were adopting a vegan lifestyle, Nuhad had the idea to manufacture vegan handbags. To target this expanding demographic, she considered launching a new brand. The business began operations in 2015, and Nuhad soon opened a showroom in Tripoli and a social media presence where she markets her products.

Access to finance. According to Nuhad, her business boomed between 2015 and early 2019, when the economic and financial crisis in Lebanon began worsening exponentially. As the financial crisis reached its peak in 2020, demand started to gradually decline, and Nuhad's business eventually came to a halt because she was no longer able to access the savings that were kept in her Lebanese bank account.. Furthermore, early on in her business journey, Nuhad had decided to work exclusively with Lebanese manufacturers which became increasingly difficult as the crisis continued.

Seeking international manufacturers. "Lebanese manufacturers are leaving the country or are demotivated to find work. The ones that remain are only taking huge projects worth five figures or more so that the work can be worth their time. This makes it very difficult for a small business to find reliable manufacturers locally. Since working with Lebanese manufacturers was becoming less of an option, Nuhad began to consider seeking manufacturers abroad. She believed that this could help kick-start her business again as foreign manufacturers might be more reliable, which would increase the likelihood of receiving quality products in a timely fashion. "I'm currently trying to find good manufacturers in Italy, Turkey, or even China."

Improved knowledge and skills. To further increase the likelihood that her business would recover, Nuhad joined an incubator in 2021, which enhanced her knowledge of business and marketing strategies. Through this program, she was able to showcase her products in several exhibitions in Tripoli. However, the possibility to participate in such nationwide shows had decreased due to the significant rise in transportation costs, and Nuhad noted that she must take those costs into account while making decisions.

Further price increase because of the Ukraine crisis. Commenting further on the impact of the increase in prices, Nuhad stated that manufacturers had begun taking into consideration the price of electricity and water while pricing their products, which drove up her costs significantly. In turn, over the previous year, Nuhad had to decrease her line of products from ten different products to only one or two.

Decrease in purchasing power. Finally, Nuhad reiterated that despite her best efforts to grow her business, it was more likely that her clientele would continue to shrink in the following months, as the financial crisis worsened and Lebanon's residents prioritized basic needs.

Case Study 3:

Jean Charles' "thriving" ice cream shop in Hamra, Beirut

Product differentiation. Jean Charles runs an artisanal ice cream shop in Hamra. His business was successful, which he attributed to the high quality of his artisanal ice cream. "Quality pays back. The difference between me and other shops is that I don't make commercial ice cream. I make real artisanal ice cream. So, I prepare everything from scratch. This results in a different end product than others. When you work on high-quality products you will always have that niche of people who would buy at the price you set."

Increased prices of inputs. Jean Charles increased prices due to higher prices paid for raw materials and utility bills, but he emphasized that it had not been significantly detrimental to his business. "Regarding the increase of prices, with the increase in the exchange rate of USD when compared to LBP, of course it's hard for a lot of people to purchase things, but the Lebanese people adapt. People want to spend their money on something that gives them pleasure, that's why my business is doing fine." He noted that despite the increase in prices in LBP, he had not changed suppliers and still used the same high-quality ingredients.

Place. He also priced the same (not higher) during festivals and events like Souk el Akel, to maintain a good relationship with his customers. He also highlighted that he had not lost customers since the beginning of the crisis. "I have the same number of customers because they come for this different (high-quality) ice cream and bring their friends. It's all about the word-of-mouth in Lebanon."

Access to finance. Jean Charles highlighted that he avoids taking on debt or loans and only operates with his own money. He was prepared to use his own funds to increase and expand the production line and refused to put his house or business up as collateral, a requirement of banks, while interest rates were too expensive. «The ice cream shop was closed for the entire duration of the lockdown." Nevertheless, Jean Charles remained optimistic. "I believe we will get out of this. Things cannot stay like that forever."

Further price increase because of the Ukraine crisis. Jean Charles was contacted a year later, on June 2022²⁸. He notes that despite the big impact of the economic crisis, his business was still doing well. The wheat crisis did not impact him too much; even when it comes to ice cream cones, customers have the choice to just use a cup instead. Suppliers were increasing prices and utility bills were higher, but still manageable. He tried his best to price reasonably. "When the USD exchange rate goes up, I don't increase my prices and keep them the same even when the exchange rate decreases; I try to be reasonable." He did not have any employees and attempted to minimize the fluctuation in prices. "I don't increase my prices every time the USD exchange rate goes up a tiny bit." For this reason, he was hopeful that eventually he would be able to expand his business.

Case Study 4: Joseph's "thriving" tuk-tuk taxi service in Tripoli

Product differentiation. In 2018, Joseph Elia was a driver working for a taxi company. As the economic crisis in Lebanon began worsening in 2019, residents across the country, and particularly in the poverty-stricken North, were increasingly unable to afford transportation costs. Joseph and a few of his friends had the idea of using their experience in the transportation industry to develop an affordable and practical way to deliver meals and products using "tuk-tuks", small, motorized vehicles that can carry up to 2 people or other light loads. The idea immediately became a hit as people in Lebanon were already accustomed to relying on delivery services to purchase products. "We eventually realized that we can also ferry people around as a taxi service. This slowly became more and more popular because of the increase in fuel prices."

Improved management. Joseph's company slowly expanded to include a more organized structure with full-time employees, a call center, and a marketing and accounting team. The company also developed a presence on social media, as demand was increasing for accessible and affordable transportation. This was a direct result of Lebanon's residents facing more transportation-related issues.

Place. Firstly, the increase in fuel prices meant that everyday trips were becoming more and more unaffordable. Secondly, car ownership and maintenance became out of reach for most people, particularly in Tripoli where most people were receiving low wages in LBP or were unemployed. Joseph reported that riding a tuk-tuk became a favored means of transportation in the city, especially among the youth. The novelty factor played a role, as younger customers enjoyed being able to quickly and easily get around to meet friends and would regularly take photos and interact with the drivers.

Further price increases because of the Ukraine crisis. As the economic and financial crisis continued, Joseph's company began to face competition from individuals and groups who also took advantage of the rising costs of transportation. However, Joseph reported that his company was able to keep prices low since they had a head start on most of the competition and were operating many vehicles. In fact, their clientele has recently expanded to include people from several socio-economic classes. Joseph hopes to see his business expand to other areas, and operate multiple call centers and vehicle stations across Lebanon.



Conclusions and Recommendations

6. Conclusions and Recommendations

6.1 What Did We Learn?

While the crises and their aftermath shocks are the same for all businesses in Lebanon, they are experienced differently. The key characteristics separating thrivers, survivors, and divers can be divided into structural and behavioral drivers.

The structural factors which were found to influence the resilience of firms in our research included:

- ◆ The firms' size: those with higher turnover struggled to adapt to leaner models when revenues declined. They inevitably suffered as the overall economy contracted. Similarly, smaller firms which had larger numbers of household dependents could not maintain these costs as turnover reduced.
- ◆ The sector of activity: firms working in trade and manufacturing were more likely to be hard hit by the crisis compared to firms in the service sector, at least in the short-term.
- ◆ Firms with educated owners were more likely to adapt to the crisis. The sex of the owner did not seem to play a significant role in firms' resilience, although thrivers tended to employ more women than the others.
- ◆ The older the age of the enterprises the less likely they were to adapt to the crisis compared to more recently established firms.

These structural factors play a key role in facilitating or hampering firms' coping strategies, i.e., behavioral drivers of performance, namely the ones identified in this research: business network organizations (BNOs), access to finance, and a combination of innovative/adaptive actions.

Overall, it seems that factors that favored growth in non-competitive markets prior to the crisis were not relevant to the performance of firms during crisis, e.g., the most likely explanation for **BNOs networking** being more common among divers is that divers are characterized by path-dependent (or system-dependent) business models. This is less true for thrivers who demonstrated far more adaptive and competitive behaviors and outlooks. Similarly, the collapse of **financial** institutions favored firms' owners with access to other sources of income and/or remittances.

The **combination of innovative/ adaptive actions** can lead a firm to thrive amid the current crisis. Thrivers in the sample showed that they:

1. Relied on product innovation (new product or service) as opposed to process innovation.
2. Introduced products that are new to the market, as opposed to introducing products that are new to them as a company.
3. Complemented their new product innovation with marketing and promotion efforts, a customer-service focus, and adequate pricing strategies.
4. Relied on online sales through various platforms including applications, social media, websites, etc.
5. Relied more on formal rather than informal networks to support their innovative work, and some have benefited from NGO support.

In contrast, divers who have also attempted product (or service) innovation to attract higher demand were unable to make a breakthrough with their innovations because they did not introduce a relevant product (or service), did not make sufficient marketing and sales strategies, or did not price correctly.

In short, thrivers were able to use the crisis as an opportunity for import-substitution and to create products (or services) that have higher demand during crises, while divers attempted innovation as the last resource to save their business but lacked the pre-existing capacity, strategy, knowledge, or financial resources to make their innovation work.

6.2 Implications for Development Responses

6.2.1 Structural Factors

1. The weak performance of older firms may reflect a lack of entrepreneurialism and ambition to expand and diversify business strategies. While there is no silver bullet to overcome this, innovative capacity building and mentorship approaches can clearly play a role.
2. Lack of specific technical skills. We know that firms did not change behavior in ways that their more successful counterparts did, but we do not know whether they could not. Skills such as ICT tend to be more common in the younger, more educated people whose firms have thrived in this crisis, but if these skills are found to be a reason, then they may provide a potential angle for intervention.
3. The lack of effective information systems and firms' owner ability to understand market competition. This became evident from the discussion around competition where divers (who do not inherently know about their position relative to their competitors) report selling better products at a higher price than their competitors. This issue may be tackled through tailored Business Development Services interventions.
4. It is worth further investigating the dimensions of gender from both the perspective of ownership and workforce skills to examine how the collapse of a men-controlled business ecosystem may create opportunities for greater women's economic participation.

6.2.2 Networking and Social Capital

1. Pre-crisis BNOs as well as informal business networking seem to have favored certain types of business activity, but they were not able to help firms cope with the effect of the crisis. Interventions aimed at improving BNOs capacity and services, such as chambers of commerce, may be considered.
2. Informal business networking ultimately represents the "framework" through which firms implement their supply chain strategies. The efficiency of informal networks corresponds to the inefficiency, dysfunctionality, and lack of transparency of value chains. Interventions aimed at improving value chain functionality and competitiveness should be considered.
3. The failure of BNOs and informal networking in supporting firms in times of crisis should not be misinterpreted as a negative role of social capital. The level of structural social capital that these networks may provide to members depends on the networks' capacities and governance. The research indicators, in line with the WBES, were focused on the networks that were assumed to be a source of support for businesses but which did not appear to be actively providing that support. Further research on the role of social capital and cooperation on firms' performance is needed.

6.2.3 Access to Finance

1. The loss of savings (partly due to the loss of value in USD deposits and LBP depreciation after October 2019) has had the most significant impact on businesses' capacity to invest and operate. Financial institutions are unlikely to be able to provide financing to the private sector in the short and medium term. Incorporating blended micro-financing products into business support programs, such as grant plus loan or loan plus cash top-up schemes should be considered to support business access to finance while ensuring the sustainability of microfinance institutions.¹⁵

6.2.4 Innovative and Adaptive Behaviors

1. Reducing costs, at this level of firm, is unlikely to lead to improved outcomes—this could matter for specific capacity building curricula.
2. Building out product lines to capture more demand may be successful. Ways to support innovating divers to transform into thrivers can be explored.
3. Dealing with “assumed knowledge” regarding the products available in the market or the position of the firm in the market in terms of price and quality is important. MC can give the SMEs basic tools for market studies, so that they move from “assumed knowledge” to “actual data and informed decision”.
4. Another interesting avenue to explore could be the creative thinking aspect even though it might be more complicated to measure its impact and to which extent it translates into real innovation.

¹⁵ Micro-Finance Institutions are facing significant challenges that threaten their ability to recover from the economic crisis.

Contact

BENJAMIN MEDAM

Program Performance & Quality Manager | Lebanon
bmedam@mercycorps.org

DANIEL HUDNER

Senior Researcher - Resilience and Market Systems
dhudner@mercycorps.org



ABOUT MERCY CORPS

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.