



## Livelihoods Sector

### Support to Businesses<sup>1</sup> - Guidance Note

#### Objective of the guidance note<sup>2</sup>

This guidance note produced by a task force of the National Livelihoods Core Group<sup>3</sup> aims to provide actionable guidance to partners, donors and practitioners on several themes related to supporting businesses in Lebanon, a sector objective that became a priority in the current situation. Feedback from the Livelihoods Working group<sup>4</sup> indicated that selection of businesses and cooperatives, modalities of assistance, and access to local and international markets are the main themes of interest all of which will be covered by this note.

#### Definitions and other considerations

- **Business classification.** According to the SME Strategy of the Ministry of Economy and Trade, enterprises in Lebanon are classified as follows<sup>5</sup>:
  - o Nano: enterprise with less than 4 employees
  - o Micro: enterprise with 4 to 10 employees
  - o Small: enterprise with 11 to 50 employees
  - o Medium: enterprise with 51 to 100 employees
- **Cooperative:** an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.<sup>6</sup>

#### Selection of businesses

Selection and eligibility criteria depend to a large extent on the donor and organization requirements. However, here is a non-extensive list of possible conditions:

- Number of employees. This will also play a role in defining the category of business (nano, micro, small, medium).
- Geographical location. Depending on the geographical coverage of the project. If it is being implemented at the national level, partners are advised to ensure representation of businesses from different areas and regions as this represents a possibility to strengthen business to business collaboration.
- Date of establishment. Depending on the donor/partner requirements, the project might aim to support existing businesses (operational for more than one year) or new businesses (start-ups). The sector does not have a specific recommendation on this, but based on partners inputs through the

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<sup>1</sup> The term business used throughout the document refers to both businesses (MSMEs) and cooperatives

<sup>2</sup> While this is not a live document, it will be revised on regular basis to be reflective of the changes in the context.

<sup>3</sup> Led by UNDP and includes ACTED, IRC, Mercy Corps, Al Majmoua, FTL and UN Women

<sup>4</sup> November 2021 Reflection sessions

<sup>5</sup> The document refers to them as businesses

<sup>6</sup> <https://www.ilo.org/global/topics/cooperatives/lang-en/index.htm#:~:text=A%20cooperative%20is%20an%20autonomous,owned%20and%20democratically%20controlled%20enterprise.>



different discussions, supporting existing businesses was a preference as it yields more tangible results in a shorter period.

- Growth potential. Partners should also look at the potential of business growth. This could be in revenues and employment capacity (i.e., creation of new jobs).
- Social and environmental impact and the participation/benefit to vulnerable groups.
- Innovative and creative projects that actively respond to the market/consumer demands (in case of support to new businesses).

Additional conditions might be applied depending on the services to be delivered such as having a financial system in place if the project entails financial support or being active in a business sector that is identified in the governmental plans.<sup>7</sup>

### Getting started

To decide on the best modality of assistance for each business, a **detailed assessment** should be conducted to understand the status of the business, its main challenges, market positioning and responsiveness to market needs, financial and legal status, marketing strategy, managerial and technical capacities as well as its prospects for growth and development amongst other important factors. The assessment should result in a clear and comprehensive business development plan that addresses the businesses' main challenge and considers new opportunities. The assistance should tackle the needs in the business plan partially or totally based on the type of intervention. Preferably, the assessment should be done by a business expert who has experience working in the target sector(s) and has a good understanding of the local business environment. This will ensure a constructive and open discussion, guarantee ownership of the business plan, and build trust leading to proper engagement with the business. The sector recommends that registration and formalization of businesses become a mainstreamed activity in all interventions.

### Modality of assistance

The modality of assistance can include one or more of the following most common interventions:

- **Technical support/business development support.** This includes the provision of expertise required to improve quality and reduce cost of production/services offered by the business or support to increase production and/or introduce new product lines while ensuring competitiveness. It also includes the provision of support related to business legal consultations, sustainable business planning, operations and human resource management, networking and business linkages and other related fields. Though the support can be in the form of group sessions, it is recommended to use one-to-one technical coaching tailored to specific business needs.
  - o Business formalization and registration
  - o Develop the technical skills of the staff
  - o Product/Market assessment consultancy
  - o Marketing: Branding, identity, social media, and digital marketing
  - o Introduce new products to fulfil market demand
  - o Incubation services which include office space, administrative functions, education and mentorships, access to investors and capital and ideation/idea generation.

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<sup>7</sup> Such as those highlighted by MoET and/or MoAG



- Business and financial management training
  - Export requirement training
- **Cash or In-kind support**<sup>8</sup>. This is to address a specific gap in materials, equipment, rehabilitation, or other tangible elements either through direct provision by the organization or through cash grants to be used by the business for procurement purposes. In the case of latter, the organization must ensure that businesses are aware of eligible costs that can be covered by the cash grant and that they have the capacity to follow proper procurement procedures. Aside of the project design, the choice between in kind or cash should be done with special consideration to the business capacity. In both cases, the support should be provided in a way that ensures building the capacity of the business to develop and expand without increasing the reliance on assistance. In some instance, to ensure commitment, ownership and sustainability, partners might condition a matching funding from the businesses.
- Access to financial services<sup>9</sup>
  - Increasing the production capacity
  - Access to energy (PV implementations)
  - Provision of goods, commodities, or services
  - Provision of financial support (non-repayable funds)
  - Green/renewable energy
- **Other interventions:**
- Market linkages (Local and international)
  - Exposure - Exhibitions and development of online platforms
  - linkages to Lebanese economic representatives at foreign countries
  - Support the digitalization of businesses by promoting digital literacy and digital up-skilling<sup>10</sup>.
- **Indirect intervention.** As opposed to the direct support to businesses, a Market System Development (MDS) approach can be considered. The MSD approach works on the market actors who have impact on the businesses rather than working directly with them. Developing the market actors will be leading to a larger scale economic impact, better market systems and indirectly improving the sustainability and growth of the targeted businesses.
- Strengthening of labs and certification authorities
  - Supporting online platform that can facilitate the access to data and information
  - Improving rules, regulations, and norms that govern business activities (including registration)
  - Developing training capacity, expertise, and training tools for service providers
  - Access to resources (Water, energy, input, ...) for businesses.

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<sup>8</sup>For more specific information on financial (cash) support refer to section “Recommendations related to access to finance for MSMEs”

<sup>9</sup>See section: Innovative and affordable sources of finance: microfinance and alternative sources

<sup>10</sup> The need for digitalization has become more urgent as the Covid-19 pandemic has triggered a boom in online sales and marketing globally and as local businesses must access global markets due to the domestic recession and in order to secure hard currencies.



- Development of systems and improving their capacity to assist businesses in accessing local and international markets

#### Access to local and international markets (requirements, opportunities)

Access to local and international markets has many challenges and requirements that not all businesses are able to meet. A comprehensive assessment of the business is needed to evaluate the capacity and needs of the business to sustainably grow and enter new markets. The business assessment should consider the following main sections:

- **Capacity of the Business.** Each business should be assessed to understand its strengths and weaknesses. While some businesses might require mostly technical support, it is important to focus on the business culture and organisation. Businesses producing products with great potential might struggle in sustaining their activity if they lack sales capacity, marketing strategy, organisational structure, or have unsuitable working environment. Focusing on “managerial and administrative” capacity specific needs by offering tailored support will drastically increase the impact of capacity building activities.
- **Market assessment/demand** (Demand on the product/service). Market assessments are key elements to understand the demand for a certain type of product, both locally and internationally. Livelihoods initiatives must be designed to support businesses in accessing markets through answering the demand, i.e., market driven approaches. Assessing markets also means identifying opportunities and challenges for a product or a service, such as competition, export barriers, seasonality, etc. For export markets, assessments can support in understanding product preferences such as quality, and taste in addition to market requirements such as packaging, language, and labelling. Additionally, market assessments should help identify the product’s price positioning and benchmarking.
- **Local/International partnership analysis.** Businesses depend on economic ecosystems that include in addition to the business actors from both the public and the private sectors. Facilitating partnerships and linking various actors through a value chain approach will multiply the economic impact which contributes to business sustainability and resilience to economic shocks. Stakeholders’ mapping is one way to identify the value chain and ecosystem that the business belongs to. The business model and partnership strategy of a business should be built based on this analysis. Strong efforts need to be invested in creating those partnerships through facilitating formal and informal contacts between different actors of a value chain<sup>11</sup>.
- **Export process** (Requirements, Regulations, and payment methods). Export markets have additional requirements that are specific to each country or economic region. Those additional requirements impose challenges that must be tackled to be able to export. Those requirements imply additional costs to adapt the product or service to the export country (certification, labelling, packaging etc.). Noting that these additional costs might refrain businesses from exporting, it is important to support businesses in covering them. Finally, businesses need to be supported in the

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<sup>11</sup> For further information refer to the Value Chains Guidance note



logistics related to export, including identifying export partners, export method, logistic costs as well as the financial logistics related to international money transfers<sup>1213</sup>.

### Innovative and affordable sources of finance: microfinance and alternative sources

While grants are crucial to answer a specific crisis, it is not sustainable on the long term, and finding durable solutions to provide on-going, accessible, and affordable access to finance for businesses is integral. With diminishing possibilities to secure loans from banks, Microfinance Institutions (MFIs) and alternative sources of financing are essential, if not the only, in providing access to finance to the businesses.

#### Recommendations related to access to finance for businesses – Partners

- **Provide financial literacy, financial management training and individual coaching.** The majority of the businesses targeted by the sector are need capacity building in financial literacy and management (including costing, pricing, financial negotiation, liquidity and debt management). Businesses need to have clear financial strategies and a full understanding of the lending conditions or financing memorandum.
- **Deliver milestones-based business grants.** Grants for businesses remain relevant in the current context but they must be incorporated with clear key performance indicators (KPIs) and milestones. These KPIs could be agreed upon 3-6 or 12 months ahead of the grant release and reviewed on a quarterly basis to approve the release of the grant.
- **Support access to finance new types of enterprises and investments.** social enterprises are fast developing to answer socio-economic and environmental challenges, but they need adapted financial products to support their development. It is crucial to support the investment of businesses in energy efficiency and renewable energy systems to secure energy and lower the energy bill. Agri-financing is also an area where innovative and adapted financial products also need to be developed.
- **Offer blended finance products.** Based on the difficulties faced by many businesses impeding their ability to resume or start operations from scratch, a blended approach of financial support should be adopted by donors and practitioners. This approach would entail a combination of **loans** and **grants** (with different possible modalities including cash grant, fixed asset purchase, raw material purchases) and/or **interest subsidies**. This may be the best solution forward to help ensure businesses are in a more solid financial position to repay loans. This will also allow to move from pure financial assistance to a more sustainable and developmental approach.
- **Explore Innovative and alternative sources of financing:** While many alternative sources of financing are cited as potential in the Lebanese context, including crowdfunding, value chain financing, digital

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<sup>12</sup> <https://regulations.agriculture.gov.lb/> The Ministry of Agriculture's online platform on food safety norms and requirements. This tool is designed to facilitate access to up-to-date information on food safety regulations and import/export requirements for various stakeholders: farmers, producers, exporters, importers, laboratories, and consumers

<sup>13</sup> <https://www.bieel.org/> Business Innovation and Enhance Exports for Lebanon - all about what it needs to get products into export market including required tests, certifications, and a full export manual to help expand the business



finance, these options need to be piloted to validate their relevance, affordability, and inclusiveness<sup>14</sup>.

- **Propose other types of financial products:** Access to finance is not only about access to investments and loans, but also about savings and insurance schemes that are essential for the financial health of businesses. In difficult economic context, savings should be encouraged and incentivized (i.e., with savings matching funds) as it acts as a resilience safety net for vulnerable enterprises in case of emergency.

Recommendations related to access to finance for businesses – Donors

- **Provide First loss guarantees mechanisms.** Supporting access to finance to the businesses is not only about the subsidy of interest, but also about the availability of a first loss cushion. Development Finance Institutions (DFIs) could be providing this first loss guarantee to microfinance institutions or other financing actors.
- **Create a business's USD Loan Capital revolving Fund.** Donors could come together to create a loan capital revolving fund that could be managed by a vetted Microfinance institution with proven capacity in managing such funds. This would provide adapted and sustainable financing for the businesses while supporting the resilience of the microfinance sector.

*Things to keep in mind*

**Mainstreamed activities.** Experience showed that capacity building should be mainstreamed across all types of support to ensure the sustainability of the intervention. Capacity building plans should be tailored to the specific needs of the beneficiary, preferably including both group sessions (trainings etc.) as well as individual coaching and business advisory.

**Post Intervention follow up.** To ensure results are achieved and assess the impact of the intervention, it is important to plan for a post intervention follow up with supported businesses. On the immediate term, it is important to do a post distribution monitoring to ensure that the assets and/or cash are put to their intended use. Following any training, a satisfaction/technical evaluation should also be considered to assess the quality of the training/participants feedback and the acquired knowledge and skills. On the longer term, the sector recommends assessments 3 to 6 months after the intervention has ended ensuring that it measures increased revenues and increased employment opportunities that can be attributed to the provided support.

**Coordination with other actors.** Noting that support to businesses and cooperatives is an activity that falls under other sectors<sup>15</sup>, partners are strongly advised to consult the "Support to MSMEs and Cooperatives" interactive dashboard that provides information on support provided to which business in the different areas, the type of support provided and the partner who provided the support. This will not only serve as a tool to avoid duplication but also gives the opportunity to provide complementary

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<sup>14</sup> Existing initiatives: the Cedar Oxygen for SMEs in terms of subsidized debt, the 1st impact fund in Lebanon launched by Al Fanar, the provision of equity funding by the Diane Foundation but these options are mainly available to finance big tickets leaving aside the smaller enterprises.

<sup>15</sup> Namely the Food Security and Agriculture sector



services to businesses. Furthermore, partners are requested to take part in the reporting of their activities to be reflected in this tool.<sup>16</sup>

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<sup>16</sup> The mapping is usually done on a quarterly basis and is initiated through an invitation by the sector with the relevant links.



## Annex 1 – Planning an Intervention

### Capacity of the business

To assess the businesses capacity to access new markets, 7 key pillars are defined with their corresponding dimensions:

#### **Product assessment**

- Quality and distinctive advantages of the product
- Does the product have/require certifications (Industrial, food safety, health?)
- Does the product require special labelling and/or packaging requirements?
- Does the product require any international certifications (at export countries)? ISO, IFS, GLOBALG.A.P, etc...
- What are the product competitive advantages (Price, lifetime, uniqueness, etc.)?

#### **Production capacity assessment**

- What is the current production volume and the capacity to increase the production to supply the new markets?
- Diversity of products and ability of the business to cover market different requests
- Does the business have the logistics and storage facilities to carry the additional production?

#### **Sales assessment**

- Does the business have enough market experience such as sales channels and earlier export attempts
- Does the business have customer relationships and connections (locally or internationally)

#### **Marketing strategy**

- Does the business have a marketing strategy?
- Does the business have active marketing platforms? Digital, Non-digital, social media.
- Did the business participate in any exhibitions, tasting events, samples distribution events, ...)?
- Does the business have any marketing products? Company profile, product catalogues, ...
- What is the business capacity to communicate in different languages?
- Does the business have a clear identity

#### **Human resources**

- Does the MSME have the required human capacity and technical skills to increase production?
- Does the MSME have an organisation structure (Departments) and a clear decision making and responsibilities mechanism?

#### **Business Legal status**

- Commercial registration (Ministry of justice)
- Chamber of commerce
- NSSF
- Ministry of industry (If manufacturing business). Factory Licences and Industrial certification
- Ministry of Agriculture for cooperatives

#### **Profitability and financial**

- What is the current financial situation?
- Does the business have the financial capacity to increase production?
- Does the business have accounting and costing systems?





### Market assessment (Market demand)

Understanding the demand for a certain type of products is a key element for both local and export markets. Market assessment aims to clearly identify the demand of the product in the targeted markets in addition to the different market factors that may improve or limit the access to those markets. Market assessment is an analysis that can identify the best market(s) to enter and has 2 main pillars:

#### **Market analysis**

- Is there a demand for the product at the targeted market?
- What are the competitive products available at the targeted market?
- Are there any trade agreements (for export) with the export country?
- What are the possible applied TAXs/customs at the export county and how does it impact the product pricing?

#### **Understanding market factors**

- Is the product seasonal or has demand across the year?
- Are there any barriers that can limit the exportation of the product? Barriers can be culture, political, logistics, ...
- Is the targeted market politically and security stable to generate long-term business and a good return on investment?
- Diaspora advantage
- Can the product match the trends and possible future trend changes?

### Partnership analysis

After shortlisting the potential markets, potential partners should be identified:

- What is the current business model of the businesses? B2B, B2C, etc.
- Does the business model support the access to the new market strategy?
- What is the best profile of a business partner? Retail, wholesale, dealer channels, white labelling, direct sales...)
- How can we identify and shortlist potential partners and what tools/capacity do we have? (Email, cold calls, social networks, and events...)

### Export process. Requirements, Regulations, and payment methods

Before final decision to access new markets, the MSME should identify the main requirements and regulations in the targeted market:

- What are the required certifications at the targeted market? Food safety, industrial, others
- Does the product require special packaging? (Packaging material, package design, capping requirements, ....)
- What labelling, branding, language, expiry, nutrition facts, sealing, ... are required?
- Required export documents (Invoice, certificate of origin, delivery order, bill of lading, packing list, food safety certifications, ....).
- What is the best export method and how does that impact the pricing of the product or reduce the possible risk? Air, sea, or road? (EX-works, FOB, CIF, ...)
- What is the best payment method? Cash in advance (best for current context), LC, open account, or consignment