

# Role of SMEs in Lebanese Economy

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## Abstract

In Lebanon, the majority of organizations work as Small and Medium Enterprises (SMEs). SMEs play an important role in the monetary improvement of numerous countries. This paper utilizes current viewpoints to analyze the variables influencing venture, efficiency and development of SMEs in Lebanon. It explores main factors affecting investment and productivity as follows: *flexibility, customers and employee's relations, motivation of the owners*, education of the labour force, access to infrastructure, access to finance, size of firms and other business climate variables. Other business climate variables are insecurity, bribe or corruption, the amount of time that businesses spend dealing with government regulation, poor power availability, etc.

The most concerning issue for small and medium sized enterprises (SMEs) is not the idea or the product provided and neither its customers, but their needs. High costs of operations and office space are basics to the survival of a private venture. Incubators come as a reaction to the necessities of SMEs in key strides of a business, for example, commencement and market entrance. An incubator aims to have a positive effect on the economic health of an area, of a community even on a country.

**Keywords:** SMEs, Lebanese Economy, Monetary Progress, Financial Sector Development, Regional Policies, Infrastructure

## 1. Introduction

Since the 1960s to date, small and medium sized enterprises (SMEs) had been given due recognitions in particular in the developed countries for taking principal roles in the direction of fostering accelerated fiscal development, development and stability inside a number of economies (Yitzhaki, 2006).

Over the last few many years, the contributions of the SMEs sector, the progress of the biggest economies on the earth have beamed the searchlight on the uniqueness of the SMEs; and this have succeeded in overruling previously held views that SMEs have been simplest —miniature types of bigger corporations (Al-Shaikh 1998; Gaskill et al. 1993).

The survival of the SMEs during the latest economic crisis pushed Collins, in 2010, to find out why some enterprises declined while others persisted. (Aliouat & Nekka, 2011) also conducted research to find out the reasons that “make some SMEs operate properly, against all odds, in these environments”.

Small and Medium Enterprises (SMEs) plays a huge part in the financial improvement and destitution lessening of numerous countries. SMEs are found in a wide exhibit of business exercises. These extents from the single craftsman creating farming actualizes for the town showcase, the coffeeshouse at the corner, the web bistro in a residential area to a little complex building or programming firm offering in abroad markets and a medium-sized car parts maker pitching to multinational automakers in the household and remote markets (OECD, 2014). The expansion in consideration in SMEs has turned out to be more vital since the monetary effect of the 2007/2008 money related emergency on economies all around (Igwe, 2016; Igwe, Onjewu & Nwibo, 2018). With globalization, creating nations are winding up progressively reliant for universal trade of products and enterprises, work, development and innovation. This wonder requests that all economies end up proactive, distinguish openings that offer near points of interest and make inventive moves to financial development, work creation and flourishing.

For example, up to date studies conducted with the aid of United Nation Industrial development organization (UNIDO) concur that SMEs are: labour-intensive, delivering more possibilities for low-expert staff, correlated with curb earnings distribution inequality, quintessential for agriculture-elegant countries transitioning to an industrial and repair-oriented financial systems, quality sites for innovation and sustainable initiatives due to their inherent flexibility and risk-taking potential (Patricoff & Sunderland, 2005).

Small and medium agencies play predominant roles within the economies of most of the developed and setting up nations, chiefly in Lebanon, and influence enormously on employment production, earnings distribution, and dispersion of industries.

The importance of the SME sector and the informal sector is stated internationally, defining SMEs as challenging mission, after which every nation has its own definition.

There is not any single, uniformly accepted definition of a small company (Storey, 1994). Corporations fluctuate of their levels of capitalization, sales and employment. Hence, definitions which employ measures of dimension (e.g. Number of workers, turnover, profitability and net valued at) when applied to a sector could lead to all firms being categorised as small, while the equal dimension definition when applied to another sector would result in yet another outcome.

The Lebanese economy faces a complexity of issues, which are rooted in socio-monetary constitution and history of violence and injustice. Consequently the low agricultural productivity, famine and established droughts; excessive population progress, low human resource development, excessive transport expenses and environmental degradation make a contribution drastically to the structural issues which resulted in large macroeconomic difficulties.

Besides, social problems, the human useful resource base and the general productive apparatus and programs, had been also littered with the conflict. For that reason the destruction of the social material, the lack of men and women's confidence and trust in every different expand extra the poverty and vulnerability of the Lebanese people peculiarly in rural areas.

On this context, the Lebanese government's superb purpose is to create a new social, political and economic framework that have to tackle the issues of the nation. The government of Lebanon have to develop a coverage that promote the creation of alternative ways of achieving high incomes, employment, a coverage which encourages entrepreneurs to make contributions more positively to fiscal development in the nation. Entrepreneurs are encouraged in enforcing small and medium agencies which play a paramount role on financial development

Many countries are facing low productivity growth, weak trade and investment, and rising or persistently high inequality. In addition, major trends, including the new industrial revolution, the changing nature of work and demographic changes, call for innovative policy solutions.

The population of SMEs is very diverse in terms of age, size, business model and the profile and aspirations of entrepreneurs. They vary in their characteristics and performance, including across sectors, regions and countries. These differences have implications for how policies are designed and targeted.

The objectives of this paper are to inspect the elements that influence efficiency and development of SMEs and business enterprise in Lebanon. It adds to information on the business ecological issues and difficulties in Lebanon. We inspect five fundamental determinants of profitability, which incorporate instruction of the work compel, access to foundation, access to back, size of firms and different business atmosphere factors. The measurements of business atmosphere factors are frailty, influence or debasement, the sum of time that organizations go through managing government direction, practices of casual exercises, expense and exchange directions, and so forth.

## **2. The Definitions of SMEs**

Small and medium-sized companies (SMEs) are an extraordinarily heterogeneous workforce. SMEs are located in a vast array of trade routine, ranging from the only artisan producing agricultural implements for the village market, the espresso store at the corner, the web café in a small town to a small subtle engineering or application corporation selling in abroad markets and a medium-sized car components brand promoting to multinational automakers within the home and overseas markets.

The house owners may just or might not be poor; the firms function in very exclusive markets (urban, rural, neighbourhood, national, regional and worldwide; embody unique levels of expertise, capital, sophistication and growth orientation, and is also within the formal or the casual economy. The abbreviation "SME" is used in the European Union and by global organizations such because the World bank, the United international locations and the World alternate institution. Small corporations out number colossal firms by using a huge margin and also rent many more humans. SMEs are also said to be liable for driving innovation and competitors in lots of financial sectors

In addition, the united states of America, the Small trade Administration units small business standards based on industry, possession constitution, sales and quantity of employees (which in some circumstances could also be as

high as 1500, even though the cap is almost always 500). Both the United States and the EU more commonly use the identical threshold of fewer than 10 employees for small places of work.

### *2.1 European Union*

In July 2011, the EU Union commission said it will open a session on the definition of SMEs in 2012. In Europe, there are three broad parameters which outline SMEs:

- Micro-entities are businesses with up to 10 staff
- Small companies appoint up to 50 workers
- Medium-sized corporations have up to 250 workers.

The European definition of SME follows: "The class of micro, small and medium-sized corporations is made up of enterprises which hire fewer than 250 people and which have an annual turnover no longer exceeding 50 million euro, and/or an annual stability sheet whole not exceeding forty three million euro.

ECU member states have had individual definitions of what constitutes an SME. For illustration, the definition in Germany had a limit of 255 workers, at the same time in Belgium it would had been 100. The influence is that even as a Belgian business of 249 employees could be taxed at full rate in Belgium, it could however be eligible for SME subsidy below a ECU-labeled programmed.

In keeping with German economist Hans-Heinrich Bass, "empirical study on SME as well as policies to promote SME has an extended lifestyle in West Germany, dating again into the 19th century. Except the mid-twentieth century most researchers regarded SMEs as an impediment to extra economic progress and SME policies had been for this reason designed in the framework of social policies.

Simplest the Ordo-liberal tuition, the founding fathers of Germany's social market economic climate, found out their strengths, viewed SME as a strategy to mid-20th century economic problems (mass unemployment, abuse of fiscal energy), and laid the foundations for non-selective (realistic) industrial policies to promote SMEs.

Canadian industry defines a small trade as one with fewer than one hundred staff (if the trade is a goods-producing one) or fewer than 50 workers (if the business is provider-situated), and a medium-sized industry as one with fewer than 500 employees. While enterprise Canada may have screening criteria headquartered on SME qualification, corresponding to eligibility for subsidies, it isn't the tax authority in Canada.

Establishments in Canada are probably taxed at 29% federally. Canadian controlled exclusive businesses acquire a 17% discount within the tax fee on taxable sales from active firms as much as \$500,000. This small trade deduction is diminished for businesses whose taxable capital exceeding \$10M, and is fully eliminated for businesses whose taxable capital exceeds \$15M.

In China, the definition of a small-medium company most of the times situated on the number of employees that by and large with fewer than 500 workers; In China, the definition of an SME is complicated, which is dependent upon the enterprise category and situated on the quantity of employees, annual earnings and whole belongings, and this standards on small and medium-sized corporations are established on the SME promotion law of China (2003), which sets the rule of thumb for classifying SME's.

1. The principal dimension of the SMEs is drastically smaller than the gigantic and listed organizations in China as a result of the scale of their capital inventory, credit allowance.
2. After the reformations of presidency legislations in 2005 for they prefer of SMEs in China, at the present time, SMEs have been running in distinct branches of organizations reminiscent of manufacturing, services, development, transport and retailing. This help has helped the emergence of many extra SMEs in China which means there's even better demand for financing all these SMEs
3. Small organisations also make up significant share of SMEs in China which often lack the degree of specialization and cooperation within the production areas. This is most commonly considering that that there is lack of presidency legislations that helps and shows directions for SMEs in China.
4. The primary marketplace for SMEs is the domestic market of China which is when you consider that SMEs cannot take care of fierce competition in the worldwide markets or does not have advantage over overseas-invested businesses with high-tech. Because of scarcity of dollars, most SMEs function most commonly in labour-intensive small and medium industries as the technological development is slow for them.

### 3. SMEs in Lebanon

SMEs play a particularly important role in developing countries. They are a major source of employment, income and export earnings. (OECD, 2004). In the MENA region, SMEs constitute 99% of companies and provide 2/3 of workstations (Koldertsova, 2006). In Lebanon, there is no official definition for SMEs, or their contribution to the Gross Domestic Product. Estimates from the World Bank show that 90.2% of SMEs have less than 5 employees. (Koldertsova, 2006).

Additionally, fiscal and monetary policies of the postwar highlight an enormous debt. The Central Bank perseveres an efficient banking system that carries considerable national savings, a major asset to big business performance. But as the Lebanese productive sector consists of small and medium enterprises, the recession becomes more significant. This sector is weakening by the day. Debt policy that has been followed since 1990 by the governments of former Prime Minister Hariri made the interest rates relatively high on debt

### 4. Monetary Progress

Typically refers back to the sustained, concerted movements of coverage makers and communities that promote the ordinary of dwelling and fiscal well-being of a detailed discipline. Monetary development will also be referred to as the quantitative and qualitative alterations in the economy.

Such moves can involve multiple areas including development of human capital, important infrastructure, regional competitiveness, environmental sustainability, social inclusion, wellbeing, protection, literacy, and different initiatives.

Financial progress, in step with Harvard Professor Michael E. Porter is the "lengthy-term procedure of building a quantity of interdependent microeconomic capabilities and incentives to support extra advanced varieties of competition." These capabilities and incentives, that have been at the start recognized in Porter's *The aggressive competencies of countries*, 1990, include the nature and extent of the inputs required through companies to supply items or services; the foundations, incentives and norms governing the style and intensity of regional rivalry; the first-rate of demand for neighbourhood offerings; and the extent and satisfactory of regional suppliers and associated industries.

Monetary development differs from economic growth. Whereas fiscal progress is a policy intervention endeavour with ambitions of monetary and social well-being of persons, financial growth which is a phenomenon of market productiveness and upward push in GDP. As a result, as economist Amartya Sen facets out: «economic development is one side of the system of economic development.

Monetary development can be described as an approach that influences development and restructuring of an economic climate to increase the monetary health of a community. In the broadest feel, fiscal progress encompasses three essential areas:

1. Insurance policies that executive undertakes to fulfill extensive financial ambitions including inflation control, high employment and sustainable growth.
2. Policies and programs to provide offerings together with constructing highways, managing parks and supplying scientific access to the deprived.
3. Insurance policies and packages explicitly directed at making improvements to the trade local weather via precise efforts, business finance, marketing, neighbourhood development, industry retention and expansion, science switch, real property development and others.

The fundamental intention of monetary progress is bettering the fiscal health of a group by way of efforts that entail job production, job retention, tax base enhancements and exceptional of existence. As there's no single definition for financial progress, there is not any single method, coverage or application for attaining successful financial progress. Communities vary in their geographic and political strengths and weaknesses. Every neighbourhood therefore, will have a targeted set of challenges for financial progress.

### 5. Financial Sector Development

Given the present global economic crisis, budgetary administrations foundation and direction merits specific consideration as it has incredible effect on SMEs. This incorporates the control of banks and loaning, laws securing leasers, the frameworks for settling business debate, directions of the privileges of borrowers and loan bosses, manages on repossession of guarantee, credit registries and the related implementation components.

Laws allowing repossession of insurance vowed in return for advances are in critical segment of the administrative system fundamental for obligation accumulation and the arrangement of credit. Without them budgetary

organizations might be hesitant to loan to business. Another imperative part of the budgetary framework, which helps banks in giving credit, is a credit registry. Their capacity is to record the credit reimbursement accounts everything being equal. Having a record of reimbursements can impartially help distinguish those with a sound reimbursement history and the individuals who have defaulted on credits.

Laws adequately directing bankruptcy and taking into account the efficient conclusion or restoration of bothered firms are a critical piece of the budgetary administrative condition. By accommodating business courts, the arrangement of private bankruptcy trustees to oversee rearrangement or liquidation of bankrupt firms, and loan boss assurance laws, among different zones, can make a more unsurprising money related condition that will give credit all the more effortlessly to SMEs.

Directing the money related detailing and revelation practices of banks and other credit suppliers likewise is a vital segment of a sound venture structure. Open trust in monetary organizations is a critical segment of present day economies.

## 6. Growth and Development

Dependency theorists argue that negative nations have typically skilled financial development with little or no economic progress initiatives; for illustration, in instances the place they've functioned almost always as useful resource-vendors to wealthy industrialized nations. There may be an opposing argument; however, that growth reasons progress due to the fact one of the most develops in income will get spent on human progress similar to education and wellness. In keeping with Ranis et al., fiscal development and is a two-way relationship. Furthermore, the primary chain contains economic development benefiting human development with the upward push in economic progress, families and individuals will seemingly develop bills with heightened incomes, which in turn lead to growth in human development. Additional, with the improved consumption, health and schooling grow, also contributing to fiscal progress. In addition to increasing exclusive incomes, monetary development also generates additional resources that can be utilized to give a boost to social offerings (similar to healthcare, dependable drinking water, and so on.).

By using generating additional resources for social offerings, unequal income distribution might be mitigated as such social offerings are disbursed equally throughout every group, thereby benefiting every character. Concisely, the relationship between human development and monetary progress can be defined in three methods. First, develop in normal earnings results in development in wellbeing and nutrition (often called capability enlargement by way of fiscal development). Second, it is believed that social results can most effective be elevated through lowering earnings poverty (known as capability growth by means of Poverty discount).

Finally, social effects may also be accelerated with primary services equivalent to education, healthcare, and smooth drinking water (known as ability growth via Social services). John Joseph Puthenkalam's, research objectives on the procedure of economic growth theories that lead to fiscal development. After examining the present capitalistic development-progress theoretical equipment, he introduces the brand new model which integrates the variables of freedom, democracy and human rights into the present models and argues that any future fiscal development-progress of any nation depends on this rising mannequin as we witness the third wave of unfolding demand for democracy in the center east.

He develops the competencies sector in development theories with two new ideas of 'micro competencies' and 'macro advantage'. Micro talents are what a man or woman learns from institution or from various current competencies and macro advantage is the core philosophical thinking of a nation that each one individuals inherently acquire. Easy methods to combine each these talents would investigate additional progress that results in economic progress of establishing countries.

Yet others consider that a quantity of normal constructing blocks ought to be in place for growth and development to take situation. For instance, some economists suppose that a primary first step toward development and growth is to address property rights issues, otherwise handiest a small part of the fiscal sector shall be capable to take part in development. That is, without inclusive property rights within the equation, the casual sector will stay external the mainstream economic climate, excluded and without the identical possibilities for be trained.

Access to entrepreneurship competencies, management and workforce skills, technology, innovation, and networks, is also critical to enable SME growth.

In many countries, enabling SMEs to seize growth opportunities over time is a policy priority to address low productivity growth and widening wage and income gaps. SMEs that grow, in terms of employees, turnover profitability or market share, can have a considerable impact on employment creation, innovation, and the competitiveness of national and sub-national economies, as well as contribute to raising wage and income levels.

OECD work shows that the share of young SMEs in total job creation is about twice as large as their share in total job destruction or in total employment. However, the majority of new enterprises fail in the first years of activity and post-entry growth varies widely across countries. Surviving start-ups scale up faster in high-risk sectors, such as telecommunications, scientific research and development and IT services. Older SMEs and older large firms continue to account for the bulk of employment across countries, but create fewer jobs than they destroy (Calvino et al., 2016).

### **7. Regional Policies of Economic Development**

In its broadest sense, policies of economic progress embody three fundamental areas:

- 1- Governments mission to fulfill huge financial objectives corresponding to price stability, excessive employment, and sustainable growth. Such efforts comprise economic and fiscal insurance policies, legislation of monetary associations, trade, and tax policies.
- 2- Programs that provide infrastructure and offerings equivalent to highways, parks, low-cost housing, crime prevention, and schooling.
3. Job construction and retention by way of unique efforts, business finance, marketing, local development, body of workers development, small business development, business retention and growth, technology switch, and real property development. This third category is a main focal point of monetary development experts.
- 4- One growing understanding in monetary development is the promoting of regional clusters and a thriving metropolitan economy. In latest international landscape, place is vitally important and turns into a key in aggressive expertise.
- 5- Global trade and alternate premiums are a key challenge in monetary development. Currencies are generally both beneath-valued and over-valued, resulting in alternate surpluses or deficits.

### **8. General Overview of Small and Medium Enterprises (SMEs)**

The growth and progress of micro-corporations as well as small and medium scale organisations has been principal to the monetary development of East African international locations ( Mamadou March, 1996).

Many governments and specialized small and medium enterprises development corporations and associations have lengthily been engaged in supplying help for the institution of small and medium firms and for his or her development and progress activities.

This the most likely by way of the construction of an enabling environment, for illustration fiscal and economic policies which can be geared towards encouraging progress of small and medium companies, pre-investment feasibility surveys, services for raw materials and different inputs, infrastructure amenities and domestic assistance.

Small and medium organizations are a key aspect in financial lifestyles, no longer most effective considering of their number and form but additionally seeing that of their catalytic function in the economic system. They play a complementary role in the support of the colossal sector, and are a floor for innovations and diversifications. They can be visible as a kind of commercial breeding floor, a supply of constant renewal of industry and commerce, and a wellspring of competitors' dynamism.

Governments, organizations, global associations, personal and public traders and all other development associations are turning their concentration to the small-scale organisations. Efforts to advertise financial progress by establishing gigantic industries have on the whole didn't beef up the lot of majority of the population. Within the constructing nations, small and medium companies are seen as a fundamental element in the monetary progress.

This section provides a large overview of small manufacturer definitions used throughout the globe with the target of figuring out what is an SME. This understanding will go some distance in comparing and benchmarking results from distinctive studies.

SME definitions can also be widely categorised into two, «fiscal» and «statistical» definitions. Under the fiscal definition, a firm is regarded as small if it meets the following three standards:

- 1- It has a relatively small share of their market situation;
- 2- it is managed by way of house owners, or part house owners, in a personalised approach and no longer by means of the medium of a formalized administration constitution; and
3. it's independent in that it's not part of a larger organization.

8.1 The «statistical» definition, alternatively, is utilized in three most important areas:

- 1- Quantifying the dimensions of the small organization sector and its contribution to GDP, employment and exports;
- 2- Comparing the extent to which the small firm sector's fiscal contribution has converted over time; and
- 3- In a cross nation evaluation of the small corporations' financial contribution.

These definitions, nevertheless, have a quantity of weaknesses. For instance, the financial definition, which states that a small business is managed by way of its homeowners or section homeowners in a customized manner and no longer via the medium of a formal administration constitution, is incompatible with its statistical definition of a small manufacturing company which might have up to 200 employees.

In keeping with UNIDO, the definition of SMEs is an enormous quandary for coverage progress and implementation and is dependent especially on the purpose of the classification. For the purposes of policy development, UNIDO in general advises international locations to recollect the quantitative and qualitative indications for SME definition.

## 9. Infrastructure

Both large and small firms are influenced by poor foundation however it can be all the more overwhelming to SMEs.

Enormous organizations might be more ready to fabricate their very own portion foundation when government fails to meet expectations, yet such self-arrangement is more troublesome for SMEs. At the point when governments neglect to give adequate amount and nature of foundation, they successfully force a quiet expense on business that is show through slower taxpayer supported organizations –, for example, traditions clearances – higher transport costs because of clog and harm to vehicles made by poor streets, higher expenses because of self-arrangement of power, water and different administrations. the area managing framework requires an approach that is fundamental and in light of a sound, comprehensive process for setting needs.

Related areas are the directions concerning open foundation offering, which can be an enticing focus for debasement, tricky business hones and political impedance. Subsequently a sound speculation atmosphere ought to incorporate clear rules and different types of straightforwardness to guarantee that foundation reserves are spent decently and to the greatest advantage of the nation. Open offering standards should set out determination criteria, keep arrangement or debasement from impacting choices and keep irreconcilable situations from affecting the choices of obtainment authorities. Outlining forms with the goal that SMEs may share out in the open tenders can be an imperative SME advancement system

When contracts are marked, financial specialists likewise ought to be shielded from one-sided changes to contract conditions by governments. An adjust must be struck between people in general intrigue – which looks for the most astounding quality framework at the least value – and business interests, which need to make a reasonable profit for their endeavors.

Specific framework sectors influence SMEs unevenly. Long held as government imposing business models that have frequently failed to meet expectations, new innovation and administrative practices is permitting a few nations to include the private part considerably more viably in these zones. They incorporate telecommunications, electricity arrangement (counting co-age), and transport framework and administration (counting streets, toll-streets, ports, rails, air terminal administration and particular fare administrations, as farming dealing with terminals and chilly stockpiling stops. Water foundation can be critical to numerous organizations, especially in horticulture, mining and agri-processing.

## 10. Popular Types of Small and Medium Enterprises

Small industry exist in every form of industry, agriculture, forestry, and fishing, mining, construction, manufacturing, transportation, communication, and utilities, wholesale exchange, retail alternate, finance, insurance, and real property, and services. So as of value, nonetheless, they're principal in retail trade, services, development, wholesale alternate, and manufacturing.

Retail companies promote their products instantly to patrons. But they are tens of thousands of small retail corporations, such as bakery, greeting card, record, attire, jewellery and numerous different varieties of stores and stores.

### 10.1 Traits of the SME Sector

This learns noted that the small industry section of the economy is heterogeneous with companies ranging in dimension from micro-corporations to moderately tremendous companies. Small organizations are very diverse and have unique wants. They function within the formal and informal economies. Some are without problems survivalist whereas others are run with the aid of humans with an entrepreneurial flair. Some are start ups; some are developing speedily; others are experienced and highly refined. They operate in extraordinary markets, nearby, national and global (Wikipedia, October 2007).

No single coverage can duvet all these businesses, formal and casual, working in unique industrial sectors and with many sector specified challenges. Accordingly, data categories must be sufficiently differentiated to provide special and nuanced know-how to support distinctive policy approaches and realistic interventions.

It's valued at reconsidering whether SMEs should be considered as «one crew» because the acronym infers. For policy functions, a one- size-matches-all technique without doubt is not going to work

### 11. Factors Needed for Development of Small and Medium Enterprises

1- **Greater flexibility:** Small firms are on the whole extra flexible than gigantic firms. For instance, they are able to adopt their plans speedily in response to environmental changes. Giant organizations, which many layers of administration, can not reply as rapidly.

2- **More personal attention to customers and employees:** small industry homeowners have more direct contact with their patrons and have a greater believe for what they want than very big business. They are able to most often respond to changes in purchasers preferences as good as present extra individual provider.

3- **The relationship between the owners of small business and their employees** can be mainly more direct and private than in many huge industry, where administration tends to be in contact with workers although labour and management representatives.

**Lower fixed costs:** Small corporations mainly have decrease fixed costs than big organizations.

Fixed costs are charges that don't fluctuate because the quantity of industry alterations. Consequently the small firm might be competent to promote its product at shrink rate than a giant competitor with excessive constant bills.

4- **Greater entrepreneurial and innovative fervour:** an entrepreneur is a risk taker who begins and operates a trade in hope of making a profit. The employed managers who run huge firms seldom preserve any gigantic ownership in them. They have much less to gain through taking the hazard, for illustration, of constructing new products. As influence, they are going to are usually overly conservative in walking the establishments.

5- **Greater motivation of the owners,** employed managers almost always would not have a giant possession stake of their organisations. Small trade owners do, and this in itself can encourage them to work more difficult.

In addition, the desire to be independent and act as one's owner boss is a powerful motivator (NORMAN M. Scarborough, 1999 p. 103 as much as 106).

Ten just right matters ISO necessities can do for small and medium companies

- 1- Standards aid you compete on a level taking part in subject with higher companies
- 2- Specifications open up export markets in your merchandise and offerings
- 3- Requisites help you realize best trade practices
4. Requirements force efficiency in your enterprise operations
- 5- Specifications add credibility and self-assurance for your purchasers
- 6- Requisites open new industry opportunities and sales
- 7- Specifications provide the aggressive part
8. Requirements make your company title internationally well-known
- 9- Specifications aid your corporation grow
- 10- Standards permit a customary « language » to be used throughout an industry sector

### 12. Principles of Good Regulation for Small and Medium Enterprises

#### 1- Proportionality:

The effect of law on small industry is recognized, beginning an correct stability between hazard and fee. Unnecessary demands are not placed on regulated small business.

## 2- **Transparency:**

Coverage ambitions, including the need for legislation, are clearly outlined and comfortably communicated to those concerned. These being regulated understand their responsibilities and understand what to count on from the enforcing authorities.

## 3- **Accountability**

Proposals are released and all these affected are consulted before choices are taken.

## 4- **Consistency**

New laws are constant with present regulations. Rules are utilized continuously throughout the country.

### **13. The Importance Roles of SMEs in the Economy**

The significance and potential contribution of the SME sector are supported through both theoretical and empirical arguments and proof. We turn first to the former. A part of the contribution of the SME sector both to the overall whole element productivity (efficiency, as commonly outlined) of an economic system and to employment generation and distributional equality comes by advantage of its pattern of technology choice.

SME technology tends to be intermediate between the incredibly labour intensive technologies of micro manufacturer, which hence achieve simplest low typical labour productiveness, and the particularly capital intensive technologies of enormous businesses which thereby acquire excessive labour productivity, but use extra capital per worker than is to be had for the economic system as a whole.

Given this correlation between measurement and capital intensity, it turns into a foregone conclusion that an economic system that applies a excessive share of its capital to a small workforce need to necessarily have, as the other part of the coin, a massive casual or microenterprise sector that makes use of very little capital (the bit now not utilized by the large-scale sector) with the colossal amount of labour not employed by way of the enormous corporations.

Its intermediate technology attribute is what offers the SME sector a specific function (at the side of small-scale agriculture) in the new release of adequate or respectable employment. When most jobs are within the micro manufacturer sector, too lots of them are destined to be low productivity and for this reason low sales in character.

SME organizations can also be considerably extra productive, so in terms of the expertise to generate «decent» jobs this sector competes with massive personal businesses and the federal government, however it has the abilities of being competent to generate many extra such jobs for a modest enter of capital.

The key mechanism in producing first rate employment in most setting up international locations entails the expansion of this sector speedy enough to take in people previously unemployed (just a few) or engaged in low productiveness casual sector jobs.

In a globalizing world it's naturally important that as many predominant categories of corporations as feasible have the ability to compete in world markets. The importance of an efficient collaboration between tremendous corporations and SMEs by way of subcontracting is at its top in outward oriented nations particularly these competing in international markets in merchandise involving a great deal of labour. Being ready to depend of efficient low cost subcontractors can considerably broaden the competitiveness of the large exporters, and has been an major aspect underpinning the successes of Japan, Taiwan and Korea( Palma and Gabriel, January 2005).

On the empirical side, some facets are original to close to all SME sectors. The important confident facets have, naturally, long gone with these instances where SMEs have made the biggest optimistic contribution. Wide empirical proof highlighting the importance of SMEs includes the tips that:

1-the most triumphant setting up nation over the last 50 years, Taiwan, is built on a dynamic SME sector. This has produced both (for its time) document breaking progress and a relatively low degree of inequality, with the aid of comparative necessities.

2-The expertise of Korea, Taiwan's accomplice among the many Asian Tigers and a kind of equally speedy grower, has provided the laboratory to illustrate one more point-inequality can fall enormously when the load of the SME sector rises rapidly, because it did for a interval after the mid-1970s in Korea.

3-Colombia's golden age of growth, from the late 1960s via the 1970s, coincided with very speedy expansion of the manufacturing SME sector and with an apparent decline in urban inequality.

4-SMEs have a tendency to make use of medium-sophistication technology, which is approximately constant with the aspect endowment ratios in most establishing countries.

5-Many businesses «grow into» or «develop out of» the SME dimension variety, with both of those transitions having anything confident to be said for them.

6-The SME size range is where many primary entrepreneurs and organizations of the longer term get their start

#### **14. Is it Any Correlation Between Small and Medium Enterprises, Business Environment and Growth?**

Efforts unique on the SME sector are usually headquartered on the premises that SMEs are the engine of growth, but market imperfections and institutional weaknesses obstruct their development. Sceptics question the efficacy of this policy and point to empirical evidence either in favour of big corporations or of a measurement-blind coverage technique. While many country-level and microeconomic stories have assessed the value of SMEs in the financial development and industrialization method (Snodgrass and Biggs, 1996), Beck, Demirguc-Kunt and Levine (2005a) furnish the primary move-country proof on the links between SMEs, financial development, and poverty alleviation, using a new database compiled through Ayyagari, Beck and Demirguc-Kunt (2003).

Pass-nation regressions of GDP per capita progress on SMEs share in manufacturing employment exhibit a strong constructive relationship over the Nineties, even after controlling for an array of different country traits that can account for differences in development across nations.

Instrumental variable regressions that explicitly manage for reverse causation and simultaneity bias, however, erode the value of the connection between SMEs and monetary progress.

The regressions do not always result in the conclusion that SMEs do not foster fiscal progress. Instead, they fail to reject confidently the hypothesis that SMEs don't exert a causal impact on GDP per capita growth. This finding is regular with the view that a tremendous SME sector is a characteristic of speedy-developing economies, but no longer a cause of their speedy development. Beck, Demirguc-Kunt and Levine (2005a) also don't find any proof for any association of a giant SME sector with faster earnings growth of the lowest sales quintile and faster charges of poverty reduction.

Whilst to our pleasant knowledge there is not any mighty go-nation proof on the connection between the industry environment and financial progress, industry-degree, company level and survey evidence constantly exhibit a positive organization of a competitive trade environment with entry, entrepreneurship and investment. Klapper, Leaven and Rajan (2006) exhibit that one channel by means of which the trade environment affects financial progress is the entry of recent businesses.

By using making use of company-stage survey knowledge for 52 countries, Demirguc-Kunt, Love and Maksimovic (2012) exhibit that one of the vital causes for this variant in the likelihood of incorporating is the fact that incorporated firms face scale back boundaries to their progress in nations with better developed fiscal sectors and efficient legal programs, robust shareholder and creditor rights, low regulatory burdens and corporate taxes and efficient chapter techniques.

Organizations report fewer financing, authorized and regulatory limitations than unincorporated firms and this expertise is better in nations with extra developed associations and beneficial trade environments. Extra, they find some evidence of greater development of integrated corporations in nations with just right financial and legal associations.

Using survey data from interviews with entrepreneurs and non-entrepreneurs in seven cities across Russia, Djankov et al. (2004) furnish additional proof for the value of the business atmosphere for the determination of becoming an entrepreneur. They to find that additionally to many private characteristics the belief of corruption and government officials' angle closer to entrepreneurship influences the selection to end up an entrepreneur.

In a similar way, Johnson et al. (2002) in finding that entrepreneurs in transition economies usually tend to reinvest their profits if they consider more comfy about property right defense in their nation, at the same time Cull and Xu (2005) in finding that chinese entrepreneurs are more likely to reinvest their earnings if they are more optimistic within the procedure of property rights security and have less difficult entry to credit, with this effect being improved for small companies.

Are exceptional dimensions of the industry atmosphere equally important? Making use of corporation degree survey knowledge on the industry environment throughout eighty nations, Ayyagari, Demirguc-Kunt and Maksimovic (2005) investigate the have an effect on of entry to finance, property proper defense, provision of infrastructure, inefficient law and taxation, and broader governance facets akin to corruption, macroeconomic and political stability on corporation development.

They show that finance, crime and political instability are the one limitations which have a direct have an impact on organization growth and finance is essentially the most potent one in every of these. Together, these outcome

suggest that it is important to have a competitive industry environment that enables for the entry of latest and progressive entrepreneurs resulting in the Schumpeterian procedure of «inventive destruction» instead than quite simply having a huge SME sector, which probably characterized with the aid of a enormous quantity of small corporations which might be neither in a position to develop nor to exit.

Certainly, a colossal, however stagnant SME sector could also be a by using-manufactured from a poor industry environment itself. In addition, the prevailing proof suggests that access to finance performs an extraordinarily principal function in the overall business atmosphere, potentially constraining each organization entry and development (Thorsten Beck and AsliDemirguc-Kunt , February 2006)

### **15. Limitations of Small and Medium Enterprises in Lebanon**

Small and medium corporation force comes from the potential of smaller companies to react rapidly and flexibly to adapt to market realities and to take talents of opportunities that would not be an abilities to larger organizations. Small agencies grow to medium organizations as they're increasingly able to strengthen the assets to develop out of their nearby fiscal process.

Hundreds of small companies working on the micro level, taking abilities of neighbourhood assets and possibilities, type the bottom of a healthy economic system via offering regional services, jobs and imparting or processing for bigger corporations and markets. Despite the fact that large assisting initiatives had been undertaken through the government, they have did not create the enabling environment essential to boost the sector.

#### *15.1 Key Challenges Include*

1. Constrained resources and human potential for prior initiatives meant they have been unable to fulfill the mandate of SME development or to extend their services country-vast
2. Restricted coordination and partnership in these initiatives meant that many ongoing events, within the public and exclusive sector, were not sufficiently related and harmonized to maximize their expertise for SME development.
3. A constrained coverage atmosphere missing focal point and a prioritization of cluster and sector precise policies supposed that the final policy atmosphere was not unique at SMEs
4. The constitution of earlier finance schemes, by using inserting them in huge intermediary institutions with tricky utility tactics and limited comparison potential, intended the SMEs discovered them complicated to entry.
5. The (low) great and «one dimension matches all» procedure for industry development offerings intended that the confidential sector didn't take competencies of them, though the present PSF mannequin is working to address this constraint.
6. The overall regulatory atmosphere in Lebanon is structured towards colossal organizations that have the time and assets to conform, making the existing buildings a assignment to develop for SMEs.
7. Insufficient Infrastructure for rural SME development that inhibits implementation of innovative strategies and provision of services.

#### *15.2 Key Variables Increasing Challenges are*

##### *15.2.1 Age and Size of Firms*

A major indicator of performance of new ventures is their post-entry growth (Parker, 2004; Coad, 2014). Several studies have indicated that firm age is an important determinant of firm growth, with younger firms growing faster than older firms (Caves, 1998; Coad and Rao, 2008; Haltiwanger et al., 2013). However, the characteristics of new firm growth remain poorly understood (McKelvie and Wiklund, 2010) and there is still lack knowledge on how firm age is influencing firm growth rates over time (Coad, 2014).

Based on the World Bank Enterprise Surveys that collects business data in both formal and informal firms, La Porta and Shleifer (2014, pp. 113) provides a summary of characteristics that distinguish informal and formal businesses as follows:

- Informal businesses are much smaller than formal firms.
- On average formal firm's employs 126 people, informal firms employ only four.
- Informal firms are much less productive, with productivity calculated as value added (sales net of expenditures on raw materials and energy) per employee.
- There is a sharp productivity difference between informal firms and formal firms of the same size, whereas productivity increases with size within the formal sector.

### 15.2.2 Access to Finance

Financial exclusion refers to a situation where the poor and other disadvantaged groups are unable to access formal financial services, owing to their perceived vulnerability (Mishra, Igwe and Lean, 2014)

### 15.2.3 Access to Infrastructure

The relationship between infrastructure and economic growth is a major focus of development literature (Ayogu, 2007; DFID, 2011 & 2012; Dorosh et al., 2010; Dorward et al. 2004; Estache et al. 2002; Estache&Vaglisaindi, 2007; Khander&Koolwall 2010; Krishna &Shariff, 2011; NEPAD, 2002; Reardon, 2001; World Bank, 2010). These studies support the idea that under the right conditions, infrastructure development plays a major role in increasing productivity, promoting economic growth and poverty reduction.

### 15.2.4 Education of the Labour Force

Based on the findings from studies in Uganda and Russia, Aikaeli (2010) maintains that education allows people to adapt more easily to both social and technical changes in the economy and to changes in the demand for labour. Education is often the most important foundation for people to pursue opportunities in new business, seek higher employment and migrate (World Bank, 2008)

### 15.2.5 Other Business Climate Variables

Associated investment climate and productivity has been examined in detail by several authors (e.g. De Rosa et al., 2013; Klapper et al., 2006). World Bank Doing Business focuses on regulations and regulatory processes involved in setting up and operating a business. It analyses those that address asymmetries information (such as credit market regulations), those that balance asymmetries in bargaining power (such as labour market regulations) and those that enable the provision of public goods or services (such as business or property registration)

## 16. SMEs and Incubators

Trade incubators were created to support attainable business strategies and to help entrepreneurs' firms to achieve passing crucial levels in the lifetime of any enterprise and to develop on the market. Incubators are delivering a variety of services to the incubated corporations, creating a favourable, right atmosphere to their development, consulting trade plans, advertising, business administration or know-how related to selling the photo of corporations.

They are an major lever to launch the regional entrepreneurial initiatives that can have a giant impact on a nation's economy and may lead to the creation of giant numbers of jobs. With a view to have a strong network of incubators it is vital to use on hand resources effectually, consequently, to be mobilized in organisations productive from economic factor of view, aggressive, but also capable to proceed their work after leaving the incubator. To develop the incubators network it's essential to toughen the legal framework, to determine carefully incubated businesses and framing with the bounds of efficiency parameters and diversification of trade areas.

Given their sheer numbers and propensity to fail, one may just argue that making certain that Small and Medium measurement organizations (SMEs) are self-sustaining, will be the proper step closer to making sure fiscal sustainability in any economic climate. Business incubators had been verified to provide the platform for nurturing businesses. Actually, business incubators are obvious globally as a predominant tool for the progress of SMEs and considerable amounts of assets are invested in them at present.

Prior researchers stated that industry incubators in constructing countries face a quantity of challenges regarding innovation and creativity. Remarkable among these challenges are:

- Lack of entrepreneurial talents,
- Lack of enterprise capital,
- Bad progress expense,
- Productiveness falling at the back of,
- Aging populace,
- Downsizing, and the dearth of actual entrepreneurship

Due to the foregoing challenges, industry incubators find it complex to uphold their mandates as development retailers and in, some cases; their lengthy-time period survival becomes threatened. Of direction, this may increasingly negatively impact SMEs who depend on them for survival.

## 17. Problem Statement

The institution census validated that SMEs have a principal position to play in growing jobs for Lebanese, whereby SMEs include approximately 98% of the total corporations and account forty 1% of all exclusive sector employments.

The SME sector, with formal and casual firms, plays an important role in the country's development; it has an advantage to cut back Lebanon's trade imbalance and generate off farm employment. Strengthening this sector has been highlighted as a positive tool in achieving fiscal objectives for this reason the government has taken the lead in SMEs sector development.

Focusing on this priority, clustering method will function as a car for boosting competitiveness amongst Lebanese SMEs. When SMEs work collaboratively within a cluster, they can take competencies of market opportunities that they would not acquire by myself and share certification or monitoring techniques which reduces fee and rises studying.

Cluster situated intervention engenders collective action, communicate, trust, experiences transfer and potential constructing inside clusters and with other linked firms and sectors.

Clusters organization may additionally present a useful entry factor for stakeholders seeking to help industry and private sector progress.

The fact is that organizations working together in a cluster will have to be in a position to reply to the challenges of global market than isolated ones that is the intent that the Ministry of exchange and industry has in run of linking SMEs together in cluster.

Regardless of the position of SMEs in the Lebanese financial system, the monetary constraints they face of their operations are daunting and this has had a bad have an effect on their progress and likewise restrained their advantage to drive the national financial system as anticipated. This is disturbing for a developing economy without the requisite infrastructure and science to draw enormous organizations in significant numbers.

Most SMEs in the Lebanon lack the capability in terms of certified personnel to manage their events. Accordingly, they're unable to put up the identical quality of monetary know-how as these massive corporations and as such are not competent to furnish audited fiscal announcement, which is among the principal requisites in accessing credit from the monetary tuition.

That is buttressed through the announcement that privately held firms don't post the same variety or quality of fiscal understanding that publicly held businesses are required to produce. Accordingly, understanding on their fiscal condition, profits, and gains prospect may be incomplete or inaccurate. Confronted with this sort of uncertainty, a lender may just deny credit score, routinely to the businesses which might be credit worthy but unable to record their results.

Another issue has to do with the insufficient capital base of most SMEs within the country to fulfill the collateral requirement via the banks earlier than credit score is given out. In the crisis the place some SMEs are equipped to provide collateral, they traditionally become being insufficient for the amount they needed to embark on their projects as SMEs property- backed collateral are traditionally rated at 'carcass price' to make certain that the loan is realistically included within the case of default because of the uncertainty surrounding the survival and progress of SMEs (Binks et al., 1992).

These are one of the most causes already mentioned via some researchers as blockading most SMEs in accessing credit from the fiscal institution in the country. However are these relatively the case in Rwanda?

SMEs in Lebanon do not even have the posh of determining a financing scheme with a purpose to be appropriate for their companies. The main type of financing open to them is debt financing from the fiscal associations, which most commonly comes with a long list of necessities that most SMEs to find them tricky to meet. The other form that is Asset financing, apart the long record of criteria additionally requires operators of SMEs to provide 50% of the dollars and the financing institution offering the opposite half of to fund the purchases of the assets.

This sort of financing don't enable for progress of the SMEs sector considering the fact that they're all brief time period in nature (John Ackah and Sylvester Vuvor , June 2011).

This gain knowledge of tried to furnish answers to questions that function recommendations to be addressed:

- What's the nature and traits of small and medium firms in Lebanon?
- What are the roles of small and medium firms in the economicprogress in Lebanon?
- What are the obstacles of small and medium enterprises?

- What are the supports wanted for selling the small and medium corporations in Lebanon?

## 18. Study Objectives

The study seeks to understand what has been researched and written on assessment of the contribution of SMEs to the economic development of Lebanon

### 18.1 Specific Objectives

1. To understand the contribution of SMEs to the economic development of Lebanon and its function roles relevant to the public and private organization.
2. To analyze the nature, scope and working Small and Medium Enterprises in Lebanon, to examine the Government policies on small and medium enterprises.
3. To assess the barriers hindering small and medium enterprises in the economic development of Lebanon, and make recommendations and conclusion for future research

### 18.2 Significance of the Study

The study will establish the major problems, which small and medium enterprises face.

The study tries to establish how a small and medium enterprises can work and be managed in order to play a significant and effective role in the economic development of Lebanon. It will be useful in making major contributions to policy makers on the promotion of small and medium enterprises strategy.

The study will attempt to fill some gaps on the limited research on small and medium scale enterprises. The study will analyze carefully the present roles of small and medium enterprises in the economic development of Lebanon and also provide a basis for other studies on small and medium enterprises on top of being a contribution to the already existing academic development.

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