



# A blast in the midst of crises: Impact of the Beirut port explosion on the city's enterprises

Assessment Findings – Brief (August 2021)

Lebanon's economic crisis has been in the making for several years stemming from long-standing structural fiscal challenges, with the situation further deteriorating with the COVID-19 pandemic.

The powerful explosion at the Port of Beirut on 4 August 2020 damaged many of the city's enterprises, threatened their operations and exacerbated the economic crisis.

The International Labour Organization (ILO) and the Fafo Institute for Labour and Social Research (Fafo) conducted a study of 1,664 enterprises located in the areas surrounding the explosion site. The study mapped out the characteristics of the enterprises, the explosion's impact on them and their workers, and their adaptation and coping measures. It also addressed the effects of the COVID-19 pandemic on these businesses.

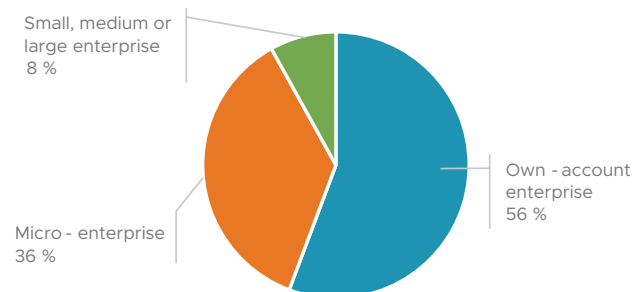
The findings were further validated through focus group discussions in August 2021, with 27 business owners and operators, to further examine the current state of their businesses.

Key findings from the study, as well as recommendations, include the following:

## Enterprises

- Most surveyed enterprises were own-account businesses with no payroll employees. **Only 8 per cent** of surveyed enterprises have more than five employees.

Businesses by size. Percentage of enterprises.



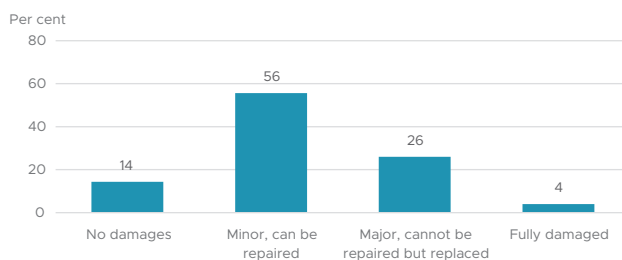
- A total of **14 per cent** of enterprises were in the hospitality sector (accommodation, food, and beverage) and tourism sector – sectors which have been severely affected by the explosion, Lebanon's political and economic crisis and COVID-19.
- Around **90 per cent** of the enterprises were said to be registered with the government. Yet, most of them operated with informal types of employment, reflected by lack of written employment contracts and few social benefits offered to their workers.



## Impact of the explosion

- A total of **86 per cent** of the surveyed enterprises located within a five-kilometre radius of the port area were damaged by the port explosion; with **35 per cent** severely or completely damaged.
- Surveyed enterprises have reduced the wages of employees by **one-third**, on average, contributing to further reductions in the purchasing power of consumers that the enterprises ultimately depend on.

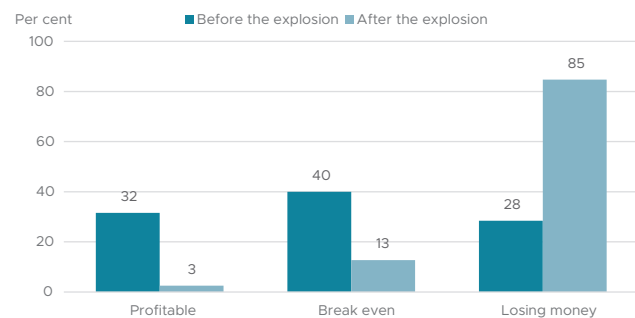
Extent of damage to the physical structures of the enterprises. Percentage (n=1,664).



- Only **3 per cent** of the enterprises are running with profit after the explosion, compared to **32 per cent** prior to the blast. A total of **85 per cent** run with losses, compared to **28 per cent** before the explosion. This drop of profitability is also contributed to effects of the national economic crisis, and the pandemic, in addition to the blast.
- Despite the severe damage caused, **40 per cent** of enterprises currently operate as they did before the explosion. The same proportion of enterprises operate with reduced opening hours or reduced workforce.
- **Fourteen per cent** of the enterprises have shut down either temporarily or permanently.
- In addition to the damage from the explosion, reduced operations are closely associated with the COVID-19 pandemic.
- **One-third** of the surveyed enterprises with employees have laid-off one or more workers, since the blast.

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Level of profitability before (n=1,664) and after the explosion (n=1,587). Percentage of enterprises.



- At present, about **one-half** of the surveyed enterprises are indebted, **70 per cent** of them to their suppliers.

## Impact of COVID-19

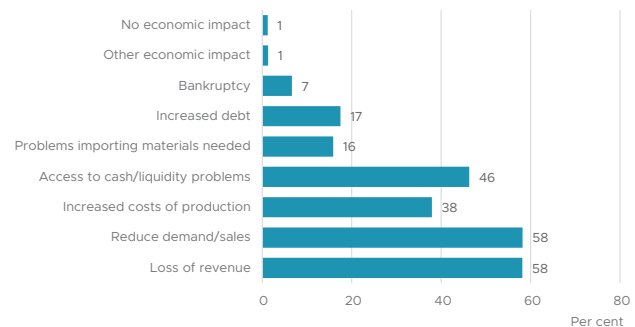
- For many businesses, the explosion added to an already challenging business environment created by the economic and political crises in the country as well as by the COVID-19 pandemic.
- A total of **93 per cent** of surveyed enterprises have been affected by the pandemic, and nearly all home-based enterprises (as many as **99 per cent**) have been affected by closures



of market arenas where they used to sell their products and services.

- The pandemic has led to reduced sales for about **60 per cent** of the enterprises, while **17 per cent** have increased their debts, and seven per cent have become bankrupt as a result of the closures.

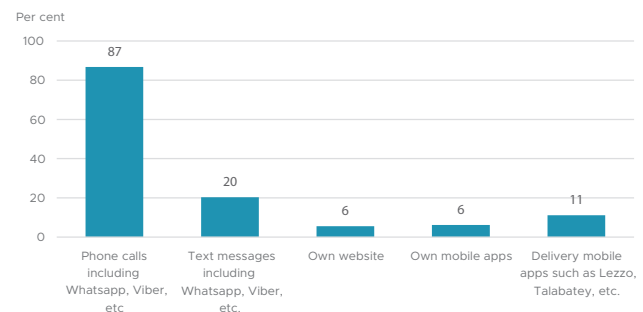
The most severe impacts of the COVID-19 pandemic on enterprises. Percentage of enterprises (n=1,664).



## Adaptation and support

- About **20 per cent** of the surveyed enterprises utilize the internet to promote and sell their products and services.
- Enterprises damaged by the explosion, and those being repaired, use the internet more extensively than other enterprises, indicating that internet use has become an adaptation and coping measure for affected enterprises.
- Only **12 per cent** of the surveyed enterprises have received assistance to recover from the Beirut port explosion. More than **90 per cent** of the support has been provided for the renovation of buildings, physical infrastructure, and equipment.
- The number of enterprises offering home delivery and pick-up for their products and services has increased by **6 per cent** since the explosion.

Platforms used to organise home services. Percentage of enterprises providing home service (n=358).



- A large percentage of enterprises mainly wish to receive support that addresses their wider economic challenges, including reduction in running expenditures — such as on electricity, water, and rents — and access to foreign currency.

## Prospects and outlook

- **Sixty per cent** of all enterprises are not sure they will be able to sustain their businesses. Their main concerns for the near future are both related to economic performance, such as increase in costs and decrease demand,

and to political instability.

- A major concern was access to cash and foreign currency as well as raw material and intermediate goods.



## From bad to worse to...? Focus Group Discussions

One year after the Beirut port explosion, Lebanon's economic and political crisis appears to be slipping from bad to worse, with future outlooks remaining bleak. The ILO and Fafo revisited a selected group of enterprises and held focus group discussions with 27 business owners and operators to examine the current state of their businesses. Beyond the immediate effect of the Beirut explosion, participants have identified a set of issues affecting various aspects of their businesses.

**Demand for products and services:** The successive and compounded crises affecting Lebanon have led to a gradual decrease in demand for goods and services, further aggravated by the Beirut port explosion. Lack of demand is affecting all sectors, while demand for food remains and increases for medicines. Owners of grocery and food retail stores indicated that customers are buying less perishable goods, as many cannot store food in refrigerators for long, due to the on-going power cuts.

**Work force:** In general, most businesses reported to have reduced their number of workers in order to reduce operational costs and due to the difficulty of fulfilling their obligation for payments. Given their small-scale nature, some business owners indicated that they turned to their relatives (including children) for help, as part of efforts to compensate the loss of their employees and fill the gap without having to deal with any financial compensations. On the other hand, laid off workers are forced to assume any available occupation to make ends meet.

*"I have laid off four employees and continued working alone despite the difficulty of doing that."*

Owner of a hairdresser

**Inputs and raw materials:** The high cost of obtaining raw materials is leading to increased prices for goods and services that dampens overall demand. For small businesses, such as that of barbers, increase in material cost, such as hair dye would mean higher cost for customers and eventual decline for such services. Other business owners are not able to conduct their usual production activities due to lack of available materials in the markets. For instance, tailors are forced to focus on repair or mending due to shortage of materials and threads required to produce new clothing.

**Operational costs:** Rents were cited as a great burden for the owners of establishments, and its intensity has increased after the explosion.



**Debt:** One of the reported consequences of the crises is the accumulation of debt by businesses mainly to suppliers and other related creditors. Businesses have also accumulated costs related to maintenance of their business structures damaged by the explosion.

**Lebanese currency and exchange rates:** Most of the participants agreed that the difference in the exchange rate of the Lebanese Lira with the dollar is one of the biggest challenges affecting businesses in Beirut. The Lebanese Lira has been pegged to the US Dollar and volatility in exchange rates lead to price fluctuations. As a result, import and export goods are affected substantially with further spill-over effects leading to overall market instabilities. Overall, the currency crisis seems to be disproportionately affecting small businesses, unlike the larger ones that may have the capacity to stockpile goods at previous exchange rates and able to sell them at the new increased exchange rates.

**Hyperinflation:** Participants said that prices have increased substantially across goods, leading to hyperinflation. This leads to a vicious cycle of weakened demand (purchasing power) and accelerated prices that does not necessarily translate to increased revenues for businesses.

**Fuel and electricity:** Lack of and disrupted energy provision is affecting all aspects of life, including businesses. The availability of electricity for mere hours during the day is severely affecting business operations, as well as demand for goods. While electricity is not available for most of the crucial hours during business operations, price and fuel availabilities are also affecting utilization of off-grid energy sources. The lack of energy translates into decreased demand from consumers, such as demand for perishable goods.

**Governance:** Participants raised the issue of governance as a systemic problem that affects Lebanon, including its capacity to manage crises such as that of the COVID-19 pandemic and the Beirut Port explosion. Corruption, lack of a stable political governance and monopoly were cited among the main issues affecting the various aspects of life, including the provision of basic products such as fuel, electricity and medicines. Participants pointed that the future looks rather bleak, unless these structural issues are addressed through the establishment of a stable government.



## Recommendations

Holistic support schemes are needed to a) provide direct support to affected MSMEs and b) work to address weaknesses in the wider system to make it more resilient to future shocks. This could entail:

### Short term:

- Provide technical support and coaching for affected enterprises in the form of ‘business continuity’ training and tutoring to help enterprises adjust their business model to new circumstances and develop business contingency plans. This should be accompanied by cash grants and wage subsidies targeting those enterprises that have not yet received support to renovate and rebuild their enterprises, and restock, after the port blast.
- Provide guidance to enterprises on good practices on restructuring in response to the COVID-19 crisis, consistent with the provisions of International Labour Standards, including in response to business downturns, the changing nature of the business, new work methods, new technologies, new investments, mergers and acquisitions, and reduction of costs.
- Similarly, there are a variety of other benefits, including reviving a declining business, increasing a company’s value, preparing the company for sale, gaining a competitive advantage, or positioning itself for growth – in short, to maintain business survival and success.

### Medium and long term:

- Develop a national plan to enhance the resilience of MSMEs through:
  - (1) Business environment, with emphasis on improving the business regulatory requirements and procedures as well as maximizing access to finance;
  - (2) Business capacity, with the aim of strengthening human capital development and improving innovation and technological competitiveness of MSMEs to transform and create new business models and enterprises.
- Analyze sectors that have been the most affected by the multiple crises in recent years to identify common constraints of MSMEs and design tailor-made solutions.



This could entail, for instance, building the capacity of sectoral associations and clusters to support MSMEs more effectively, developing mechanisms to provide MSMEs with up-to-date information on markets, prices, and actors in the sector and/or developing specialized BDS provision to better support MSMEs with common issues.

- This could also entail a detailed analysis of the (micro-) insurance market and support to build the capacity of providers to offer (micro-) insurance products adapted to the needs of MSMEs for mutual benefit:
- Allow greater space for business associations, chambers, industry, banks, SME networks and private sector representatives to inform and provide feedback on the COVID-19 response measures and to enable supportive legislation, to remove barriers and encourage investment. For certain priority sectors, establish sectoral public-private task forces to inform and develop sector specific recovery plans to build back and maximise support for employers and employees.
- Enterprises operating in the informal economy have limited capacities and resources to cope with the impacts of the different crises. They operate in saturated markets with very limited profits and poor chances of survival. Tailored responses are needed to reach and support them in dealing with the shock and to pave the way for transitioning to the formal economy, including social protection systems. Challenges in reaching informal units through conventional channels and processes need to be taken into account when designing programme delivery mechanisms.
- Local administrations and regional authorities should consider introducing incentives for severely impacted enterprises to reduce operational costs.
- Support digital transformation. The digitalization of legal and regulatory procedures make compliance more accessible, transparent and rule-based, while reducing the cost of compliance to businesses. They also allow better access to markets and digital trading while removing or significantly reducing the need for physical contact and can increase the access MSMEs and their workers in remote areas have to government services.
- Bring forward labour intensive infrastructure development and industry transition programmes that can increase the demand for local products and services, while improving public procurement policies and procedures that enhance enterprises resilience and participation.

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#### Full Report:

**English:** [http://www.ilo.org/beirut/publications/WCMS\\_816272/lang--en/index.htm](http://www.ilo.org/beirut/publications/WCMS_816272/lang--en/index.htm)

**Arabic:** [http://www.ilo.org/beirut/publications/WCMS\\_816273/lang--ar/index.htm](http://www.ilo.org/beirut/publications/WCMS_816273/lang--ar/index.htm)

“

I came here two days after the blast. The ceiling was destroyed. I was gutted. How am I going to work, how am I going to pick up again? Who will compensate me?”

**Radwan Al Khatib**  
Barbershop owner



“

Around three-quarters of the supplies I use to make candles were destroyed in the blast and this all costs money so the support I need is financial”

**Jean Issa**  
Handicraft shop owner

“

Our fear is that our products are not selling. They stay on the shelves for a long time. So, we are spending money but we are not making that money back quickly”

**Georgette Khoury**  
Homeware shop owner





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