

# *Social Entrepreneurship Momentum*

## Briefing Report

### Summaries and Insights from:

▪ **The Conference:** *“Embracing Social Entrepreneurship: Towards an enabling legal and tax environment in Lebanon”*

November 2011

▪ **Conversations with Stakeholders and Workshops:** *“ Social Entrepreneurship: Transforming Community Challenges into Opportunities for Growth”*

May 2010 – present

▪ **The Conference:** *“The Forum for Social Entrepreneurship”*

March 2012

Beirut – Lebanon

April 2012



# Foreword

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Dear Friends, Partners and Social Entrepreneurs,

The social entrepreneurship phenomenon is bringing us together on a new journey of social change with a fresh mindset and different means to influence our communities. This phenomenon can help overcome the challenges in government, civil society and the private sector by proving to be an alternative for service provision, activism, and commercial work as it is at present.

The challenges in Lebanon and other parts of the Arab World revolve around the opportunity to create and influence change. Our inclusive collaboration and holistic vision to grow the social entrepreneurship sector is a driving force that can unite us in a movement to create a better country. This new approach is about shifting from passively complaining to actively taking initiative and responsibility.

The report “**Social Entrepreneurship Momentum**” is a briefing document capturing the result of our conversations with over 300 stakeholders we interacted with between 2010 and 2012. It tries to compile all our efforts and contributions to promote and develop social entrepreneurship.

We hope that it will contribute to future efforts and initiatives that are driven by our common values and purposes.

Also, we see this report as an invitation to anyone who has not been part of the social entrepreneurship momentum yet to join the movement. So, if you believe that you are driven by a social purpose, perceive challenges as opportunities, are willing to commit to your ideals and are ready to delve into a new mindset for social change... it is time to join us.

With hope and determination,

**Partners - Beyond Reform & Development**



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# Executive Summary

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This report builds on interviews, focus groups, workshops, and a National Forum where stakeholders and members of the Social Entrepreneurship ecosystem expressed their viewpoints and understanding of the concept and its implications to the Lebanese system. Since 2010, Beyond Reform & Development has embarked on a journey to launch the conversation across Lebanon and initiate the momentum in support of a new mindset.

## The Assumptions...

The report is built around the following key assumptions:

- Social Entrepreneurship as a practice is not new but rather an ancient feature of Lebanon's economy, society and governance.
- Social Entrepreneurship is still to be defined and contextualized within the Lebanese society.
- Social Entrepreneurs require a platform that brings them together to share experiences, provide support, and build on each other's initiatives to solve social, economic and political problems.

## The Sections...

The report is divided into four main sections:

The first identifies *the local drivers* for social entrepreneurship in Lebanon and highlights the working definitions as explained by stakeholders and participants in the National Forum including *the individual, legal, and societal dimensions*.

The second section raises the critical questions that experts and stakeholders debated in round-tables and conferences. This section presents arguments from two sides of the spectrum to help the reader understand and take an informed stance around: *criteria of social entrepreneurship, individual and group motivation, as well as the legal and taxation requirements*.

The third and fourth sections address the following main challenges: *Financing Social Enterprises, Taxation and Legal Framework to govern social enterprises, and Innovation and Social Enterprises*.



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## **The Conclusion...**

The report concludes with a proposed path to initiate and sustain the momentum starting from *raising awareness, identification, empowerment, and taking action* to facilitate the financial, human, and legal resources in support of social entrepreneurs.

The authors finally suggest a path to leverage the momentum around social entrepreneurship and identify future opportunities to create strategies for:

- **Youth and women's civic engagement and economic integration**
- **Public sector development and public-private partnerships**
- **NGOs and sustainability of civil society actors**

In the final analysis, it is our assertion that social entrepreneurship provides the means to overcome challenges and replace the mindset of awaiting change with a means to drive this change and successfully contribute to social, economic and political outcomes across the country.

**The report is intended as an invitation to all those interested and driven by a social purpose, believing that challenges are opportunities, and who are willing to delve into a new mindset for social change in Lebanon and beyond.**



# Introduction

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Both Lebanon's private sector and civil society activism are characterized by personal initiative and social engagement. In spite of the political, economic and cultural challenges continuously facing the country, citizens continue to endeavor to find innovative means to solve their problems, sustain themselves and ensure a quality life.

## **It is a New Concept but an Old Practice.**

It is only recently that the conversation around social entrepreneurship has started. However, the models and practices are inherent in Lebanese society; driven by a societal and economic needs rather than a collective choice. The phenomenon of social entrepreneurship is vital, more so than ever, to create a paradigm shift in society: moving from demanding change to initiating it, while using an entrepreneurial mindset to affect and drive this change sustainably.

## **Concepts Shape Societies and Vice Versa.**

Social entrepreneurship is a concept that will affect the way that government, civil society, the private sector and local communities operate, pursue progress and development, and perceive challenges. By the same token, Lebanese society will need to adapt this new concept and customize it to fit its social, economic, political and cultural context.

## **It is a Choice and a Strategy.**

Social Entrepreneurship is a choice that embodies the values of cohesion, inclusion and integrity, which should govern society's mindset when dealing with issues where human beings are at the core. It is a strategy to find innovative, responsive and participatory mechanisms and approaches to solve our problems by taking initiative rather than complaining and demanding change.

We hope that this report entitled "**Social Entrepreneurship Momentum**", contributes to this conversation and initiates a momentum to *"anchor social entrepreneurship as a choice and a strategy to transform social problems into opportunities for social innovation, economic development and sustainable change."*

We intend to inspire and support similar efforts across the Arab World where we are currently operating.



# Introduction

This report is the result of a series of initiatives and conversations that we launched and participated in, with other partners across Lebanon. We documented insights and feedback since May 2010 through:

- Mapping 137 municipalities and collecting case studies on social enterprises from rural areas in the South, North, and Bekaa regions.
- Developing and implementing the first course on “***Social Entrepreneurship: Transforming Social Problems into opportunities for Economic Growth***” through which participated more than 500 people participated from Lebanon and Arab countries. (May 2010 - present)
- Launching and facilitating a series of conversations between stakeholders on “***Embracing Social Entrepreneurship: Towards an enabling legal and tax environment in Lebanon***”. (November 2011)
- Issuing a first report entitled “***Starting a Conversation***” and shared with more than 200 stakeholders including policy makers on the need to create a legal and policy framework to promote social entrepreneurship in Lebanon. (March 2012)
- Organizing with arcenciel the “**Forum on Social Entrepreneurship**” that gathered around 140 participants to define the concept of social entrepreneurship, discuss the challenges and opportunities facing social enterprises and exchange experiences and practices. (March 2012)
- Launching with arcenciel and other members of the eco-system the **Society for Social Entrepreneurship** as a platform that gathers stakeholders to collaborate on defining the concept and criteria, building capacities and influencing policies.

## Key Questions:

- What is social entrepreneurship?
- Why do we need social enterprises?
- How can we promote social entrepreneurship?



**This briefing report suggests a three-faceted definition with specific criteria of social enterprises, in addition to outlining challenges and suggesting recommendations on financing social enterprises, creating a legal and tax framework and fostering innovation in the Lebanese society.**

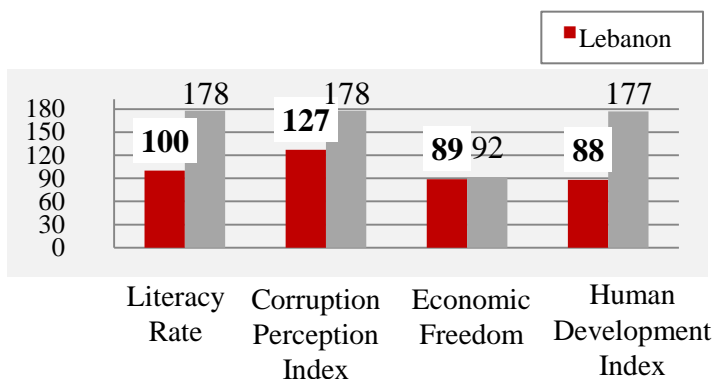


# Local Drivers for Social Entrepreneurship\*

Social entrepreneurship is a global phenomenon but it is also a local need. The social, economic and governance challenges are opportunities for a socially entrepreneurial mindset. For Lebanon, social entrepreneurship could become a transforming factor in the way citizens approach challenges; it enables them to take initiative and responsibility rather than only demand change. The following Lebanese issues summarize stakeholder's suggestions about the drivers for social entrepreneurship in Lebanon:

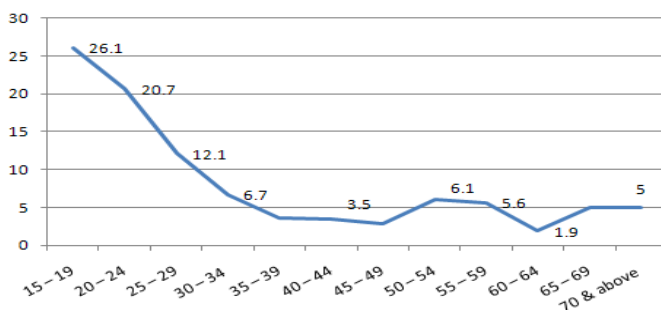
- Traditional private enterprises are primarily concerned with generating **economic value within a global financial crisis and increased competition**.
- **Non-Governmental Organizations are facing financial and organizational challenges** to their sustainability, as they mainly depend on international funding.

- Government's role in solving socio-economic problems remains highly challenged due to levels of **corruption and limited financial, human, and technological** resources.



Sources: UNDP & World Bank Reports

- **Unemployment rates are high among women and youth, and many are emigrating** find stable and rewarding jobs.



National Center for Statistics. Study on the conditions of households in Lebanon: "Rates of unemployment in Lebanon by age". (2007)

- There are many successful social entrepreneurship initiatives in Lebanon but **the ecosystem doesn't promote or incentivize them**.
- There are rising social and economic problems that require **innovative solutions and mechanisms for resolution** more specifically in the sectors of education, health, environment and agriculture.

\* Adapted from Beyond Reform & Development. *Social Entrepreneurship: Transforming Social Problems into Opportunities for Economic Growth*. November 2010, Beirut.





# Defining Social Entrepreneurship in Lebanon

Social entrepreneurship is engrained in Lebanese society, private initiative and historical practices. There are many models in Lebanon of citizens using innovative approaches to solving social issues. Many organizations and initiatives, in rural areas and cities, combine the passion of a social mission with a business-like discipline, innovation, and determination.

We can find across Lebanon a multitude of active and innovative non-for-profit organizations, businesses with social purposes and projects mixing non-for-profit and for-profit elements. However, the individuals and organizations behind such initiatives are still unfamiliar with the term social entrepreneurship and how it applies to their missions and practices.

The different conversations, between 2010-2012 and during the National Forum, highlight the need to define the concept and phenomenon of social entrepreneurship. Each time we had the chance to present the topic, few participants would realize that they are social entrepreneurs but they never identified themselves as such.

*“I am a social entrepreneur since I started working with other young women... but I didn’t know it until today.”*

Woman NGO Activist

## Participants’ Perception: The Lenses of Social Entrepreneurship

Inspired by the current understanding of social entrepreneurship, Lebanese stakeholders defined the concept using three perspectives. These perspectives are the lenses through which Lebanese stakeholders define the concept.

### The Socio-Cultural Lens

Through this perspective, stakeholders referred to the entrepreneurial ‘culture’ within Lebanese society. They cited reliance on personal initiative to solve social and economic problems through innovative means driven by necessity. Here social entrepreneurship becomes a new tag for an existing and ancient practice.

### Key Questions:

- What is the definition of social entrepreneurship in the Lebanese context?
- What criteria define a social enterprise in Lebanon?
- What are the institutional requirements for social enterprises?



## The Individual Lens

The individual perspective is used to refer to the values and personal characteristics that social entrepreneurs display including: respect of diversity, inclusiveness, human dignity, passion, commitment, social innovation, responsiveness and community-centricity. Social entrepreneurship here is a means to label individuals in the public, private, and non-profit sectors driven by a purpose and engaged in initiatives to create a social impact.



## The Legal Lens

This perspective is used by stakeholders who consider that the concept exists as a practice within civil society and among NGOs that have succeeded, in some cases, to be financially sustainable. Some participants perceived social entrepreneurship as a particular organizational form that does not exist in Lebanon today. A new hybrid form of enterprises is still to be defined legally.



However, any legal definition should include specific criteria and requirements that prohibit any abuse to such a legal category by commercial businesses driven by profit rather than by impact.

**In conclusion, it is important for the working definition around Social Entrepreneurship to incorporate a mix of definitions that reflect the perceptions of Lebanese stakeholders.**

Social Entrepreneurship should address these three lenses and cater for the three dimensions of social entrepreneurship in Lebanon: the socio-cultural, individual, and legal aspects.



That being said, despite the absence of a legal form, many individuals across the country are social entrepreneurs and many organizations operate as social enterprises.



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## Stakeholder's Definition of Social Entrepreneurship

**Social Entrepreneurship** refers to initiatives with the objectives of:

- Creating job opportunities by finding solutions to social problems.
- Creating income generating activities in remote areas.
- Promoting social cohesion between communities and sectarian groups.
- Protecting the environment and natural resources of the country.
- Generating and redistributing profit to marginalized citizens.
- Assisting the government in supplying quality services to citizens.
- Promoting a culture of entrepreneurship and social awareness in Lebanon.

*“ ... Adopting a mission to create and sustain social value (not just private value)... making a profit, creating wealth, or serving the desires of customers ... are means to a social end, not the end in itself.”*

Greg Dees, 2007.

**Social Entrepreneurs** were defined as individuals found:

- Working in the private sector and providing time, expertise and resources to establish non-for-profit organizations.
- Members of non-for-profit organizations that start income generating initiatives to sustain their impact.
- Youth finding innovative solutions to social problems and establishing business enterprises.
- Women in rural areas who start income generating initiatives and create local job opportunities.
- Local businessmen in rural areas who collaborate with municipalities to provide a local service with low profit and employing local human resources.
- Members of Municipal Councils who incubate business initiatives and support local social and economic development initiatives.
- Medical doctors, engineers and lawyers who invest their expertise in non-for-profit initiatives to solve a social problem.

*“We didn't do it because we wanted to be social entrepreneurs but it was the right thing to do.”*

Pierre Issa



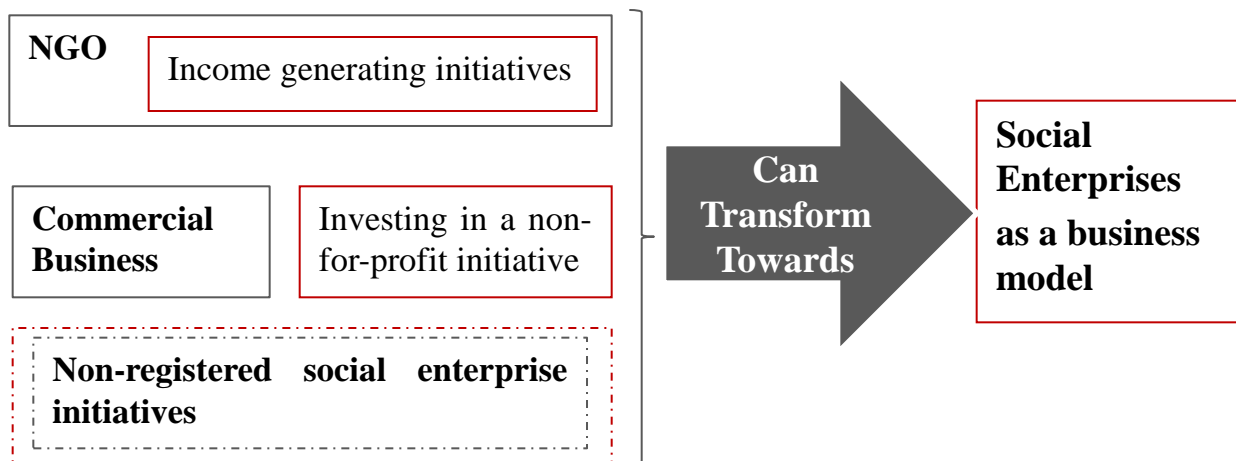
**Social Enterprises** are not defined or categorized yet as legal entities and do not enjoy a specific legislative framework in Lebanon. According to experts this is still “a grey area”. There is as yet no general consensus on the requirements to initiate this legal form. However, there is a consensus for the need to regulate and support such organizations.

Social entrepreneurship initiatives and activities exist within the following forms:

- Non-Governmental Organizations (NGOs) who have income generating activities that make them partially or totally financially independent.
- Commercial Business registered as S.A.L. or S.A.R.L. that re-invest partially or totally their profit in social impact activities.
- Non-registered initiatives that are widely spread in rural areas and among youth that generate income with the purpose of making social impact.

*“ ...any business venture created for a social purpose – mitigating/reducing a social problem or a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business ”.*

**Kim Alter, 2010.**



**In conclusion, these three forms are the clearly suited to transform from their actual form to a business model that fit the requirements of social enterprise if a legal framework is to created.**



## A Hybrid Model for Lebanon...

The following Hybrid Spectrum provides a clear distinction between the different forms of enterprises. The three types of social entrepreneurship models in Lebanon, described previously, fit within this spectrum from an institutional perspective. However, the institutional perspective is not indicative that the business model corresponds to a social enterprise.

**“ It combines the passion of a social mission with an image of business-like discipline, innovation, and determination.”**

**Dees, 1998.**

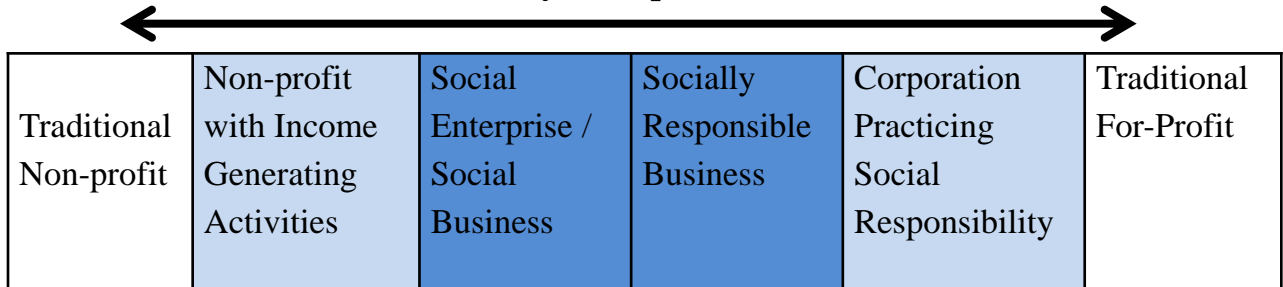
The forms of organizations existing in Lebanon are the non-for-profit non-governmental organizations (NGOs) and traditional for-profit commercial businesses (S.A.L. and S.A.R.L.). But many business models, though registered under the Lebanese categories, have business models whose primary purpose is creating a social value and where stakeholders are accountable and income is reinvested in social programs.

The below spectrum, by Kim Alter, is a good tool for reflection to mature the legal and business models of Lebanon social enterprises.

### Typology of Social Enterprises

(adapted from Alter, 2007)

#### Hybrid Spectrum



#### Primary Purpose:

#### Creating social value

Mission motive

Stakeholder Accountability

Income reinvested in social programs

#### Primary Purpose:

#### Creating economic value

Profit making motive

Shareholder accountability

Profit redistributed to shareholders



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## Critical Questions from the Forum on Social Entrepreneurship ...

**The first critical question** that was raised during the National Forum is:

**Should Social Entrepreneurship apply to or be recognized only in certain limited sectors or should it be open to any sector?**

**Argument -1- It should be limited to certain sectors because:**

- This can curtail abuse by the commercial sector.
- This incentivizes entrepreneurs to invest in pre-determined and less attractive sectors.
- This contributes to solving priority social problems.

**Argument -2- It should be open to any sector because:**

- This encourages social innovation across different sectors.
- It is difficult to prioritize sectors in a country that has multiple diverse needs.
- It should cover all sectors to cater for the economic and development gap that exists between rural and urban needs.

The final agreed upon recommendation was to encourage investment in certain sectors without limiting social entrepreneurship to a few pre-determined ones.

**The second critical issue** discussed during the Forum was the issue of the intent behind setting up the social enterprise.

**How can the social motivation and the purpose of the entrepreneur be measured to differentiate it from a commercial business?**

The following scheme of indicators is an attempt to suggest a model for solving the dilemma around sectors and motives. It elaborates on the suggestions by over 150 participants over a series of conversations aimed at setting clear criteria that define a social enterprise.

It is a draft list of indicators that will be validated with social entrepreneurs, experts and stakeholders in the next phase.



## Criteria of Social Enterprises

Parameters	Definition	Indicators	Rating
Impact	<ul style="list-style-type: none"> <li>▪ Cultural Cohesion</li> <li>▪ Social Inclusion</li> <li>▪ Sectors Development</li> </ul>	<ul style="list-style-type: none"> <li>▪ % Mix of cultural/religious diversity</li> <li>▪ % Mix of women, youth and vulnerable groups affected</li> <li>▪ Type of sector the business is in: social, environment, education, health, energy, water, justice, public service, culture, art, agriculture, technology.</li> </ul>	25%
Sustainability	<ul style="list-style-type: none"> <li>▪ Business Model</li> <li>▪ Income Sources</li> <li>▪ Ecological Standards</li> </ul>	<ul style="list-style-type: none"> <li>▪ Degree of sustainability of the financial model</li> <li>▪ % Mix of income sources</li> <li>▪ Compliance to international ecological standards</li> </ul>	15%
Profitability	<ul style="list-style-type: none"> <li>▪ Profit Sharing</li> <li>▪ Cost Allocation</li> <li>▪ Return on Social Investment</li> </ul>	<ul style="list-style-type: none"> <li>▪ % of income invested in social impact</li> <li>▪ % mix of cost allocation between operations cost and impact on beneficiaries</li> <li>▪ Ratio of quantity and quality of impact on beneficiaries over size of investment</li> </ul>	15%
Motive	<ul style="list-style-type: none"> <li>▪ Quality of Purpose</li> <li>▪ Personal Integrity</li> <li>▪ Legal Compliance</li> </ul>	<ul style="list-style-type: none"> <li>▪ The degree of validity of the process, product or service to solve the social problem</li> <li>▪ The reputation and track record of the social entrepreneur</li> <li>▪ History of tax compliance</li> </ul>	15%
Participation	<ul style="list-style-type: none"> <li>▪ Equity Distribution</li> <li>▪ Decision Making Process</li> <li>▪ Role of Beneficiaries in the Enterprise</li> </ul>	<ul style="list-style-type: none"> <li>▪ % Mix of equity distribution between beneficiaries and investors</li> <li>▪ Internal by-laws showing structural participation of stakeholders in decision making</li> <li>▪ Type of roles beneficiaries play in the business: management, strategy, supply chain, distribution channel, production chain...</li> </ul>	15%
Responsiveness	<ul style="list-style-type: none"> <li>▪ Use of Local Human Resources</li> <li>▪ Use of Local Assets</li> <li>▪ Type of Innovation</li> </ul>	<ul style="list-style-type: none"> <li>▪ % use of local human resources versus foreign talent</li> <li>▪ % use of local assets versus imported assets</li> <li>▪ The degree of innovation to respond to a need versus creating a demand</li> </ul>	15%



# Financing a Social Enterprise

Depending on the type of enterprise, the targeted beneficiaries and sector in which it operates, social entrepreneurs will be able to attract and sustain different investment opportunities and financial facilities. In the case of Lebanon, the financial facilities available for social enterprises are limited.

The different conversations explored the requirements for financing a social enterprise, the challenges in financing social enterprises in a sustainable manner, and proposes recommendations to enhance these options for Lebanon.



## Challenges Facing Social Enterprises

The following challenges were identified during the workshop:

**Government Policies and Legislations:** describes the type of challenges related to government strategies and decisions in addition to the basket of legislations related to regulating the social enterprises and providing them with tax incentives that are affecting their ability to improve their financial performance.

**Institutional Capacities:** describes the types of challenges social enterprises are facing internally due to their organizational setup or lack of internal competencies required to attract funding and investments.

**Ecosystem Support:** refers to the type of challenges the sector of social entrepreneurship is facing related to accessibility and technical requirements required to attract funding and investments.

### Key Questions:

- What are the causes of financial challenges for social enterprises?
- What are the financial requirements for social enterprises to attract investment?
- What are the forms of financial facilities that should be made available for social entrepreneurs?





The following table summarizes the challenges suggested by participants during the different conversations:

<b>Government Policies and Legislations</b>	<b>Institutional Capacities</b>	<b>Ecosystem Support</b>
<ul style="list-style-type: none"> <li>▪ The social reform agenda does not seem a priority for the government.</li> <li>▪ There is no policy to support and incentivize social impact initiatives and enterprises.</li> <li>▪ The role of municipalities is marginalized and they lack resources though they can play a key role in leveraging social enterprises.</li> <li>▪ The current tax system adds a burden on social enterprises.</li> <li>▪ There is no legal framework for the category of social enterprise.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Many of the existing social enterprises business models are still pre-mature to be able to attract funding and investment.</li> <li>▪ Many of the existing social enterprises lack skills in developing relations with investors and attracting funding.</li> <li>▪ Many of the existing social enterprises do not know the criteria that define social enterprises and mainly at the level of profitability.</li> <li>▪ Many existing social enterprises lack financial models and planning to be able to manage investments and funding.</li> <li>▪ Many existing social enterprises do not have the requirements to get access to banks' financial facilities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The concept of social entrepreneurship is still undefined in the Lebanese market.</li> <li>▪ The funding and investment available for social impact initiatives is very limited.</li> <li>▪ There is a lack of cooperation platforms between social entrepreneurs specifically in attracting funding and investments.</li> <li>▪ Business associations are still less interested in cooperating to support social enterprises.</li> </ul>

***“There is a need to move from financing social enterprises to socializing all financing.”***

**Social Investor**



## Financing Mechanisms

There are three main mechanisms for social enterprises to attract funding and investment in Lebanon:

Financial Facilities	Partnership Funding	Sector Development Funding
<p><i>Having access to financial facilities from different types of funding agencies:</i></p> <ul style="list-style-type: none"> <li>▪ Micro-credit institutions</li> <li>▪ Special loans provided by banks</li> <li>▪ Grants and seed funds provided by international organizations</li> <li>▪ Social and impact investors</li> <li>▪ Venture philanthropies</li> </ul>	<p><i>Developing initiatives and enterprises in partnership with:</i></p> <ul style="list-style-type: none"> <li>▪ Municipalities</li> <li>▪ Chambers of commerce</li> <li>▪ Business associations</li> <li>▪ Incubators</li> <li>▪ Other social enterprises</li> <li>▪ Government agencies</li> <li>▪ Corporate social responsibility funds from the private sector</li> <li>▪ International organizations</li> </ul>	<p><i>Designing innovative solutions and attracting funding through joint initiatives with stakeholders from the following sectors:</i></p> <ul style="list-style-type: none"> <li>▪ Industry</li> <li>▪ Agriculture</li> <li>▪ Technology</li> <li>▪ Tourism and ecotourism</li> <li>▪ Energy</li> <li>▪ Employment agencies</li> <li>▪ Local development agencies</li> </ul>

## Future Recommendations

The following recommendations could help in increasing the financial capacity of social enterprises in Lebanon:

- Funding opportunities need to be decentralized in order to leverage the ability of social enterprises to boost local economies in different sectors.
- A legal framework is vital in order to enable social enterprises to benefit from financial facilities and acquire tax incentives.
- Many NGOs financial sustainability will be subject to the quality of assistance they can get to transform their funding model into a social entrepreneurship business model.



# Enhancing the Legal and Tax Environment\*

As there is weak trust in government and fear of its interference in the social business sector, the approach to this subject ranges from the need to limit government's role to regulating the sector. In some cases, suggestions are about keeping the existing legal frameworks, NGOs and Commercial Businesses (S.A.R.L and S.A.L), and working around them to

develop the sector in order not to give the government the opportunity to interfere.

**“ One key objective of taxation is to pull resources from one good sector and invest them in another sector that needs them.”**

**Tax Expert**

**Though, most stakeholders agreed on the need to create a legal framework for social enterprises.**

## Legal and Policy Challenges

The following challenges were identified during the different conversations:

- Current trade laws do not include ‘ social enterprises’ as a defined category.
- The absence of monitoring and control mechanisms to ensure oversight and transparency of the work of social enterprises.
- The 1913 Law on Association does not cater to the needs and the scope of work of social enterprises.
- There is highly centralized public administration especially at the level of the provision of most social and economic services.
- The communication and partnership between public sector and government is weak and not regulated yet.
- Policy-makers are not aware of the need to develop and regulate social enterprise operations and activities.

### Key Questions:

- What are the tax and legal challenges for social enterprises?
- What role should the government play in regulating social enterprises?
- What are the legal and fiscal facilities that can enable social enterprises in Lebanon?



\*Adapted from Beyond Reform & Development. *Starting a Conversation*. March 2011. Beirut.



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## Taxation Challenges

The following challenges were identified by participants and experts during round-tables and the subsequent Forum:

- If social enterprises are registered as commercial businesses, they are taxed and governed in the same manner as any other private sector company.
- The existence of an “off-shore” taxation category encourages Lebanese investors to look at markets outside of Lebanon.
- The current corporate financial system does not encourage foreign investment in social enterprises.
- The current private sector financial law does not regulate profit distribution in a way that includes vulnerable groups and marginalized beneficiaries.
- Social enterprises are not categorized or regulated, and as such are not considered among entities to be supported or invested in.
- The current tax and financial system does not encourage or reward innovative projects that can alleviate social and economic problems.
- There is an ethical and legal risk in excluding social enterprises from the regular taxes, which could lead to abuse by individuals and institutions.

## Critical Questions

**The first critical question** that was raised during conversations with stakeholders:

**What is the rationale behind creating a legal framework for social enterprises in Lebanon?**

**Argument -1- Defending the need for a new legal form for social enterprises:**

- Social entrepreneurs can benefit from registration facilities, tax incentives and different investment mechanisms.
- Social enterprises exist under different legal forms and should have their own form to exist in the market place.
- A legal form will help protect this sector from abuse by dishonest individuals.

**Argument -2- Defending against regulating the social entrepreneurship sector:**

- Regulating social enterprises allows government to interfere in the sector.
- Social enterprises can already benefit from other legal forms such as NGOs and cooperatives.
- Commercial businesses can abuse this new legal form to escape taxes.



One important recommendation is for Lebanon to regulate social enterprises but within **a decentralized model that allows flexibility such as giving the municipalities the prerogative to register such entities.** This new legal form should be followed by a taxation scheme that incentives social enterprises.



**A second critical question is:**

**What control and audit mechanisms should be put in place to limit abuse and tax evasion?**

Here are few suggestions made by participants that would require future research and proposals:

- Social entrepreneurship to be audited by the Ministry of Social Affairs.
- Decentralized registration and audit by municipalities.
- Independent mechanisms such as the Society for Social Entrepreneurship.

**The final critical question raised during the Forum and previous round-tables addressed the issue of taxation:**

**What tax exemptions can be made possible for Social Enterprises?**

This question requires further future research to be able to calculate the tax losses by government versus the social benefits and **cost** savings that might be generated by social enterprises.

*“Social enterprises can take a lot of the costs incurred by government to provide social services.”*

**Fiscal Lawyer**

Then, suggesting scenarios forecasting the type of taxes the government can alleviate or impose on social enterprises. But what is agreed upon is the need for tax incentives for this type of enterprises.



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## Recommendations on Legal and Tax Requirements

The following recommendations are the outcome of conversations that have taken place during the Forum and round-tables:

- Regulating a *new legal statute* for social enterprises to fill the gap in the current law that does not mention this category.
- Defining the parameters that define a social enterprise and identifying specific *criteria in order to categorize* such transactions in the market.
- Enacting *a taxation system for this category* that would encourage activity and investment in this regard.
- Devising *a control and auditing mechanism* to protect the work of social enterprises and limit possible abuse.
- Making use of *existing categories in the Lebanese system* such as “offshore” and “not-for-profit” laws, that require slight amendments to meet the requirements of social enterprises.
- Learning and applying *best practices from other countries* where this category exists and is providing successful models for social enterprises.



# Fostering Innovation in Social Entrepreneurship

We live in an age in which we have to re-invent many of our social industries like health, education, environment, healthcare and transport. Lebanon has always relied on private initiatives to solve all these problems. The Lebanese context presents many factors that can trigger and provide an opportunity for innovation such as diversity, risk and lack of resources.



## Challenges to Innovation

The following challenges were identified by stakeholders:

- Intellectual property is still weakly protected in spite that the law has passed.
- Lebanon has poor infrastructure required for social innovation and which incurs extra costs on social enterprises, such as electricity, water, transportation.
- Speed and access to internet affects the ability to innovate.
- The size of the market and the high competition create a threat on the sustainability of social enterprises.
- The inequity between cities and remote areas provides less opportunity for local innovation.
- The educational system in schools and universities does not encourage social innovation and entrepreneurship.
- Government does not have a policy to promote social innovation and to encourage social enterprises.
- Government has no budget for research and development.

## Key Questions:

- What are the technological and social conditions required to promote innovation?
- How can innovation be promoted in the social entrepreneurship sector?
- What are the social priorities that should be on the agenda of social entrepreneurs?



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## Critical Question

One critical question raised during the conversations addressed innovation:  
**How can we transform existing and past challenges to opportunities?**

Robert Fritz, in his book “Creative Passion: Believing VS Creating” suggests the following answer: **“If we look at it as a problem to solve, the energy is negative. If we look at it as a future to create - a desired result to achieve - the energy is positive.”**

## Recommendations to Leverage Social Innovation

The following recommendations are the result of stakeholder conversations:

- Introduce social entrepreneurship in schools and universities’ curriculum.
- Allocate a budget for research and development.
- Reach out to localities and engage remote areas in social entrepreneurship initiatives.
- Create collaborative platforms and networks to exchange ideas and practices within the social entrepreneurship sector.
- Improve and give access to consulting services, including online opportunities.
- Initiate social entrepreneurship projects that involve the private sector.
- Learn from international best practices and adapt to local context.
- Maintain a positive sense of competition.
- Educate the media on social entrepreneurship and design initiatives for them to promote it.



***Creating and building something of value from practically nothing. Entrepreneurship is the process of creating or seizing an opportunity and pursuing it regardless of the resources currently controlled.***

**Timmons, 1994**





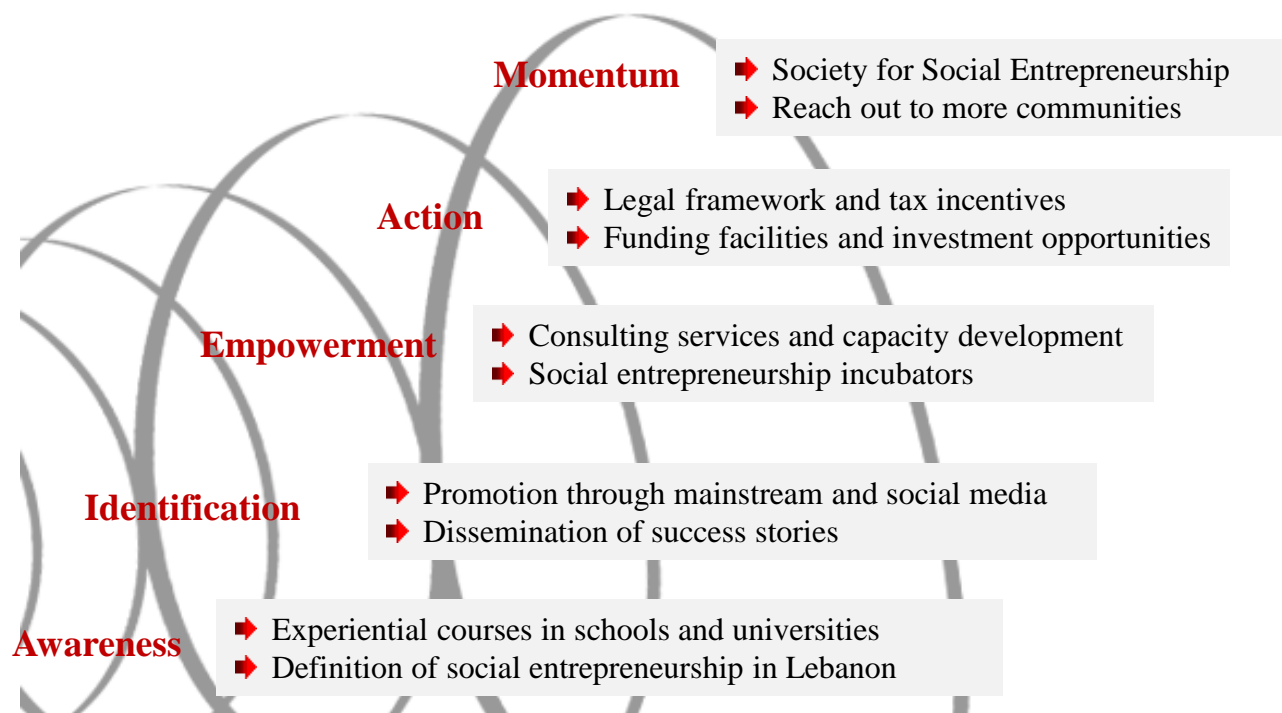
# Social Entrepreneurship Momentum

In conclusion, the authors and contributors to report aspire to contribute to the conversation taking place between the Lebanese stakeholders of the social entrepreneurship sector. The report aims to initiate a momentum that will translate the different ideas and initiatives into strategies for innovative and sustainable change.



## Initiating the Momentum

The following cycle suggests five phases to launch, develop and sustain the momentum of social entrepreneurship in Lebanon. It consists of raising awareness of the concepts and practices of social entrepreneurship, providing models for individuals and groups to identify with, empowering them with capacities and tools, ensuring an enabling context for social entrepreneurs to institutionalize their ideas, sustaining the momentum through increasing outreach and initiating collaborative initiatives, in the following manner:



## Future Opportunities

In addition to the multidimensional impact that social entrepreneurship can have on Lebanese society, it opens the door for a new form of civil society that can trigger the opportunity to provide:



# Annex -1- The Society for Social Entrepreneurship

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## Background

Social entrepreneurship is an alternative strategy to solve social problems, create employment opportunities, ensure sustainable development, promote innovation and alleviate poverty. It is a new concept and mindset in our region though it is highly anchored in our culture before it was ever tagged as such.

In order for this new mindset to be promoted, it requires an enabling ecosystem that allows social enterprises to be initiated and sustained through a supporting legal framework, tax incentives, capacity building services and financing opportunities.

*“Social entrepreneurship could become an alternative strategy to prevent and solve socio-economic problems facing Lebanon.”*

## Strategic Goals

- Define social entrepreneurship criteria, standards and models within the Lebanese context.
- Accredite social enterprises and the build capacity of the stakeholders to enable them to join the sector.
- Initiate inclusive and collaborative opportunities to influence policy making on social entrepreneurship issues.
- Promote social entrepreneurship and provide technical support for potential and existing social enterprises to leverage their impact.
- Research and develop the social entrepreneurship sector through studies, reports, policy briefs and annual conventions.

## Purpose

The Society for Social Entrepreneurship is a platform gathering all stakeholders to contribute to the global conversation and work together towards **“anchoring social entrepreneurship as a choice and a strategy to transform social problems into opportunities for social innovation, economic development and sustainable change.”**

The SSE is being launched in response to a recommendation suggested during the event “Embracing Social Entrepreneurship: Towards to an Enabling Legal and Tax Environment in Lebanon” that took place in December 2011 and was launched during the Forum for Social Entrepreneurship organized in March 2012.



## **Annex -2- The Course on Social Entrepreneurship**

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This course is designed to impart an understanding of the role and impact of social entrepreneurship on community development and prosperity. It was conducted with more than 500 participants from 12 Arab countries within universities, NGOs and informal platforms. *It invites participants to approach social problems in entrepreneurial and innovative ways and provides them with skills to start their own enterprises.*

**Module -1- Social Entrepreneurship: Definitions and Spectrum**

**Module -2- The Local Context and Global Drivers of Social Entrepreneurship**

**Module -3- The Social Entrepreneur: Vision, Purpose and Motivation**

**Module -4- Generating Creative Ideas for Social Problems**

**Module -5- Leadership and Social Entrepreneurship**

**Module -6- Building the Steering Team: Intent, Focus and Organizational Climate**

**Module -7- Social Business and Feasibility: Assessing Social Needs and Assets**

**Module -8- Strategic Thinking and Planning for Social Business Scalability**

**Module -9- Marketing Social Enterprises**

**Module -10- Management Models and the Human System**

**Module -11- Financial Management for Social Enterprises**

**Module -12- Social Enterprises and Development Sustainability**

**Module -13- Social Business Ethics**



# References

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The BRD course on Social Entrepreneurship as well as recent works have been inspired from global literature and best practices.

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## Authors and Contributors

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### **Gilbert Doumit**

#### ***Managing Partner***

Gilbert is an entrepreneur and management consultant with extensive experience serving governments, civil society, and international organizations across the Arab World. He focuses on governance and reform issues with an emphasis on organizational and people development.

### **Lara Chaaban**

#### ***Marketing Manager***

Lara focuses on the business development and outreach strategies of BRD/I Group. She leads the company's efforts to promote and enhance the state of Social Entrepreneurship in Lebanon, working in close partnership with public, private and non-profit organizations across the country.

**The BRD team consists of a network of consultants spread in the Gulf, Levant and North Africa serving clients with multidisciplinary backgrounds and expertise.**

**This report was made possible with the contribution and support of the following team members:**

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## WHO WE ARE...

BRD/I Group is **a consulting firm and a social business** that serves individuals and organizations through values of creativity, interdependence, impartiality and diversity.

**We are driven...** by the commitment towards contributing to more participatory, inclusive and responsive governance systems in the Arab World.

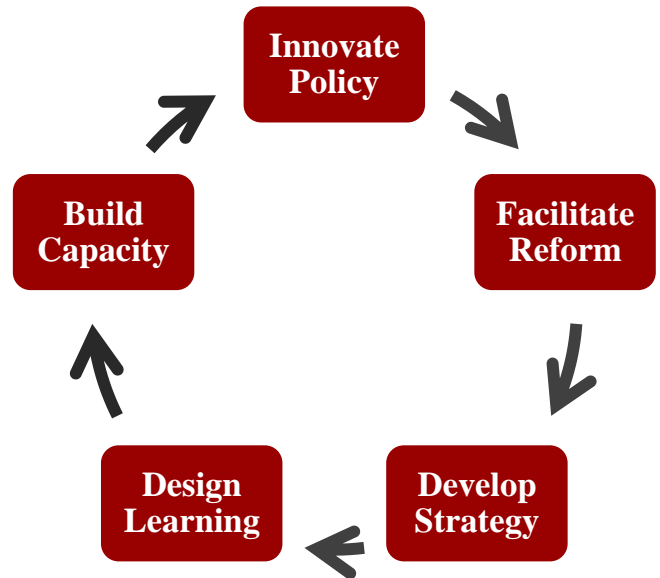
**We are specialized...** in policy innovation, public institution reform and capacity development, enabling public institutions, civil society organizations and political groups in the Arab World.

**We have contributed...** to the growth and development of myriad organizations, to find policy solutions, design strategies, restructure organizations, scale impact and improve public service.

*“We aspire... to attain innovative, inclusive and participatory governance systems across the Arab World through creating learning opportunities for people, institutions and communities...”*

## WHAT WE OFFER...

**We offer...** public institutions and development organizations the possibility to:





## OUR CLIENTS...

We serve governments, ministries, para-public institutions, international organizations, UN Agencies, public officials, universities, and civil society organizations in the Arab World.

We have recently assisted our clients and improved their capacity in the areas of:

- Organizational Development
- Restructuring Management Systems
- Leadership Development
- Management Strategy
- NGO Capacity Development
- Education Policies
- Entrepreneurship Development
- Administrative Decentralization
- Women's Political Empowerment
- Electoral Reform
- Youth Policies
- ICT and Governance
- Environmental Awareness
- Public Health
- Local Economic Development
- Academic Consulting & Course Design
- Media Relations & Communication Strategies
- Mediation & Conflict Prevention
- Research and Monitoring Methodologies

## We are serving clients in...

Syria	KSA
Jordan	Kuwait
Iraq	UAE
Lebanon	Libya
Bahrain	Tunis

## Our Strategy for SE...

Our strategy and core services for Social Entrepreneurship in Lebanon are three-fold:

- ***Creating learning opportunities*** and developing social entrepreneurs capacity to help transform their vision into reality.
- ***Advocating for an enabling legal and policy environment*** that nurtures social entrepreneurship across Lebanon.
- ***Fostering collaboration and commitment*** within the social entrepreneurship ecosystem in Lebanon and the Arab world.



## Contact Us

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**“Whatever you can do or dream you can, begin it.  
Boldness has genius power and magic in it...”**

Wolfgang Von Goethe



**Part of BRD/I Group SAL**

*“We believe... that the best promise of cohesion, development and prosperity for Arab communities relies on the desire and the ability of each of its members to learn, to take responsibility and to adapt to an ever-changing environment...”*

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**BRD/I Group s.a.l.**

Hazmieh

Baabda, Lebanon

2901 – 3215

Tel. +961-5-456040

Mobile: +96171-950952

E-mail: [info@beyonrd.com](mailto:info@beyonrd.com)

[www.beyonrd.com](http://www.beyonrd.com)

