



INTAJ STABILITY PAPER

Evidence from the SME component

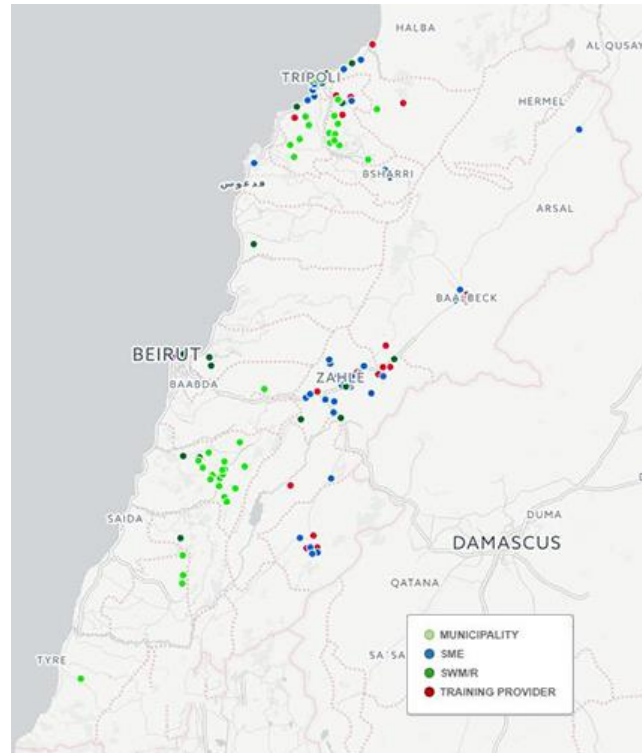
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Introduction to INTAJ Stability Evidence Papers

With the support of the Government of the United Kingdom, Mercy Corps began implementing the Improved Networks, Training and Jobs (INTAJ 2) program in the Bekaa and North governorates of Lebanon in April 2016. This program builds on the successful pilot of INTAJ 1, which ran from August 1, 2015 to March 31, 2016. Learning from INTAJ 1 enabled Mercy Corps to refine and improve the interventions and impact of the initial pilot.

Funded under the Conflict, Stability and Security Fund from DFID, the aim of INTAJ 2 is to address underlying causes of instability in Lebanon by responding to the economic needs of target communities by building stronger businesses and increasing employment. INTAJ 2 was designed to address crosscutting constraints to jobs growth in Lebanon, and focuses on:



- Engaging established private sector companies and/or non-governmental organisations (NGOs) to provide demand-driven, hands-on, practical skills training and workforce-skills development for individuals, to increase their employability and link them with employment opportunities;
- Supporting small and medium enterprises (SMEs), particularly those offering labour-intensive products in high demand - with a mix of specialised technical assistance, in-kind grants and linkages to business support services - so that they can improve their operations and grow their workforce; and
- Supporting the development of the solid waste management and recycling (SWMR) sector by working with existing market actors to expand their capacity to process more recyclable solid waste, improve efficiency and quality, and create 'green' jobs.

Both INTAJ 1 and INTAJ 2 have focused heavily on achieving the job creation, improved employability and business strengthening outcomes which were targeted in the initial program documents and monitoring frameworks, and are on track to achieve all planned targets by the close of the program.

INTAJ 2 interventions focus on the Bekaa and the North for the SME and Skills components, and focus on the Bekaa, North, Chouf, Beirut, Jezzine, Nabitiyeh, Bint Jbeil, Marjayoun, and Saida for the SWMR component.

In order to advance our understanding of how the INTAJ program is contributing to increasing stability and resilience in targeted communities, Mercy Corps is developing a series of evidence papers which look at the contribution of each of the different components to stability and resilience outcomes. These stability oriented evidence papers will be produced between June 2017-March 2018, and will each focus on a specific component of the program:

- SME strengthening and Job Creation;
- Improving the Solid Waste Management and Recycling Sector; and
- Skills Building and Employment for Youth.

The aim of these papers is to provide a quick snapshot of how the activities are contributing towards stability and resiliency outcomes on the individual, business and local governance level in the targeted communities, and to identify recommendations and areas for further investigation. The papers will focus mostly on how INTAJ 2 is contributing to stability outcomes, with a small focus on resiliency where appropriate.

DFID's 'Building Stability Framework'

Published in 2016, DFID's 'Building Stability Framework' provides evidence-based guidance on how UK aid can help build stability through its interventions. The framework sets out five building blocks that drive long-term stability, informed by evidence and experience of what works. Of most relevance for the interventions under the INTAJ program, the Framework highlights the following as essential to building stability in the long-term:

- **Inclusive economic development**, which creates widespread benefits, reduces incentives for conflict and curbs illicit economies; and
- **Effective and legitimate institutions**, both state and non-state, that build trust with those they govern, and which grow in effectiveness over time.

Under the 'Inclusive economic development' pillar, DFID highlights how economic exclusion of certain regions or groups can worsen grievances that drive conflict, particularly calling out the need to develop economic opportunities for the world's youth bulge who risk being excluded, as well as for other most vulnerable groups or groups who are most prone to violence. The paper also highlights the power of creating sustainable employment and livelihood opportunities by investing in labour-intensive sectors such as manufacturing and agriculture.

Under the 'effective and legitimate institutions' pillar, DFID focuses on how fair access to basic services can contribute to stability, and of the importance of trust and good relationships between people and authorities to achieve stability outcomes. Interventions which look to improve the capacity of local authorities to provide basic services equitably can improve the relationship between the state and its citizens at local and national level, and contribute to state legitimacy.

INTAJ Theories of Change and its Contribution to Stability

Conflict dynamics in Lebanon are particularly complex due to the historical, political and religious context, and the Syrian refugee crisis has even further complicated these dynamics.

While measuring the program impact on stability and resiliency on the targeted communities was not integrated explicitly into the logical framework and indicator plans for INTAJ 2 from the outset, the intervention design was based on research conducted by Mercy Corps and peer organisations in Lebanon which linked the deterioration of the economic situation and competition over resources (such as jobs) with rising tensions between host communities and refugees.¹ In addition, previous research indicated that the increased burden of the refugee population on overstretched services such as waste collection and disposal was fuelling social tensions.²

Based on this research, INTAJ's design is based on three Theories of Change (ToCs):

#1.) If job creation and placement occur alongside building transferable, market-driven technical skills and market linkages, then individuals are more likely to secure steady, productive employment.

Research shows employment is the resource Lebanese and Syrians are most unsatisfied with.³ Furthermore, employment is identified as a strong predictor for reducing inter-communal violence between Lebanese and Syrians in some communities.⁴ By empowering SMEs to become more resilient, improve efficiency, and increase production, more employment opportunities can be created. And by simultaneously empowering individuals to fill these jobs through skills training, INTAJ addresses a grievance that is a strong predictor of disputes. In this same vein, research shows positive economic interactions between Lebanese and Syrians correlate with improved perceptions and increased social cohesion. This correlation is particularly strong when both nationalities interact through working together in the labour sector.⁵ Job creation not only lessens inter-communal tension that could potentially turn violent, it also actively links to improving stability through improved perceptions of the other.

#2.) If Lebanese feel confident about their economic future, then they will be less likely to have negative perceptions regarding other communities, and be less likely to engage in hostile acts.

Lebanese report high levels of economic resentment of Syrian refugees, with a majority of Lebanese agreeing that increased job opportunities for Syrians will lead to decreased opportunities and salaries for themselves.⁶ Lebanese communities have also expressed that

¹ USAID/OTI Social Tension and Resource Strain Capstone 2014. Presented to Social Stability Working Group, March 2015, and Mercy Corps, 2013, Things Fall Apart: Political, Economic and Social Instability in Lebanon, at <http://www.mercycorps.org/research-resources/political-economic-and-social-instability-lebanon>

² Ministry of Environment and UNDP, Lebanon Environmental Assessment of the Syrian Conflict and Priority Interventions, September 2014

³ Mercy Corps, 2017, Overcoming the Effects of the Syrian Refugee Crisis: Understanding Perceptions in Lebanese Host Communities.

⁴ Mercy Corps, 2017, From Tension to Violence: Understanding and Preventing Violence between Refugees and Host Communities in Lebanon. <http://civilsociety-centre.org/resource/tension-violence-understanding-and-preventing-violence-between-refugees-and-host>

⁵ Mercy Corps, 2017, Overcoming the Effects of the Syrian Refugee Crisis: Understanding Perceptions in Lebanese Host Communities.

⁶ Mercy Corps, 2017, Overcoming the Effects of the Syrian Refugee Crisis: Understanding Perceptions in Lebanese Host Communities.

international assistance has neglected vulnerable Lebanese populations, fuelling resentment.⁷ By providing skills training and support for business development, Lebanese are able to see investment in their economic futures and access better employment or business opportunities, which can help ease the economic resentment between the two nationalities and improve stability in the community.

#3.) If individuals, municipalities, civil society and local businesses work together to address a common crisis or problem, like solid waste management, then perceptions of the other and local government will improve.

While employment and economic interactions prove to be important factors for stability, they are not the only factors which need focus for understanding conflict in Lebanon. Positive social interactions also correlate with improved perception of the other, particularly in areas where Lebanese and Syrians are not currently interacting, such as civic engagement activities.⁸ And while social service access does not show a strong relationship with propensity for violence,⁹ assessments from the sector identify worsening living standards and social service access to be closely connected to inter-communal tensions and disputes between Lebanese and Syrian refugees.¹⁰ Through INTAJ Solid Waste Management and Recycling (SWM/R) activities, communities are able to address an issue which has significantly worsened due to the presence of refugees in host communities, and which is a driver of negative perceptions of the other. Furthermore, SWM/R programming provides opportunities for community engagement and increased interaction between Lebanese and Syrians, which in turn, contributes to increased positive perceptions of the other, further promoting social cohesion and stability.

The evidence papers will look to deepen our understanding of how INTAJ 2 has contributed to these stability dynamics, in support of these theories of change.

⁷ UNDP, 2017, Regular Perception Surveys on Social Tensions Throughout Lebanon. Wave 1.

⁸ Mercy Corps, 2017, Overcoming the Effects of the Syrian Refugee Crisis: Understanding Perceptions in Lebanese Host Communities.

⁹ Mercy Corps, 2017, From Tension to Violence: Understanding and Preventing Violence between Refugees and Host Communities in Lebanon. <http://civilsociety-centre.org/resource/tension-violence-understanding-and-preventing-violence-between-refugees-and-host>

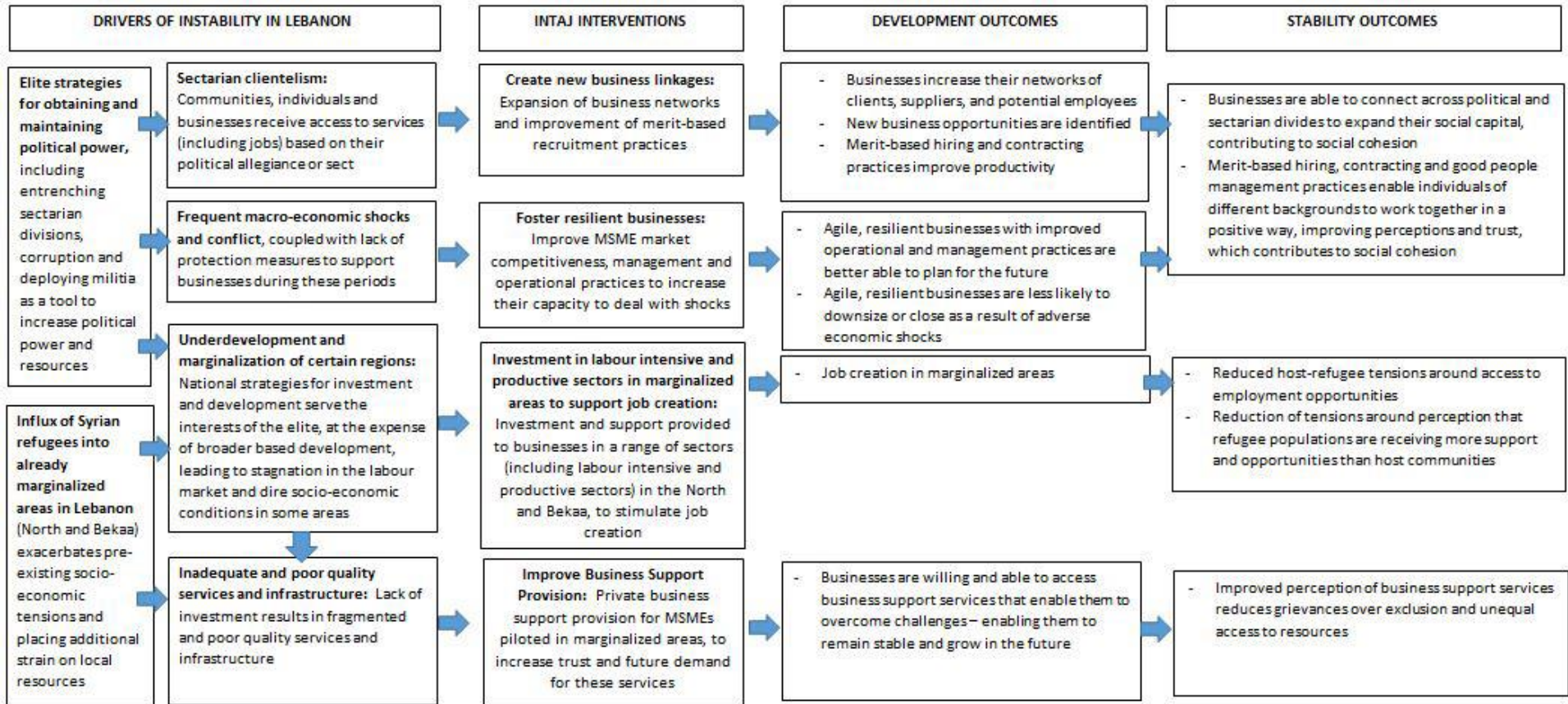
¹⁰ Sources include: Mercy Corps, 2013, Things Fall Apart: Political, Economic and Social Instability in Lebanon; Mercy Corps, 2014, Engaging Municipalities in the Response to the Syrian Refugee Crisis in Lebanon; and Search for Common Ground, 2014, Dialogue and Local response mechanisms to conflict between host communities and Syrian refugees in Lebanon. UNDP, 2017, Regular Perception Surveys on Social Tensions Throughout Lebanon. Wave 1.

Building Stability through Strengthening Small and Medium Entreprises

Identifying the drivers of instability in relation to the SME component of INTAJ

Through the SME component of the INTAJ program, Mercy Corps aims to address some of the underlying drivers of instability for small and medium businesses, that, if left unaddressed, could have the potential to escalate from tension into disputes and violence. Based on a study carried out by Mercy Corps and the Lebanese Center for Policy Studies in 2016, Mercy Corps identified four major drivers of instability which were then to be addressed by the INTAJ program.

This intervention framework for how the SME component of INTAJ addresses these drivers of instability is detailed in the following schematic:



Lebanon's political system is dominated by elites, whose main motivation is to obtain and maintain power. This is done through a number of techniques which include manipulation of electoral law, engaging in clientelistic relationships with citizens, instilling sectarian divisions in order to control constituencies in line with their political and economic agendas, and use of militias and street violence to gain political control.¹¹ Communities and individuals receive services (such as access to personal or business finance, high-speed internet for the town/village, placement of children in good schools) and jobs due to their political or sectarian allegiances. As an example, 73% of students think that political connections are important to secure employment, 20% of students resort to political connections to secure employment, and the remaining 80% find jobs through personal contacts.¹² Business relations are also dominated by political and sectarian divisions.

Failure to establish national development strategies has led to fragmented and poor quality service delivery, as well as reliance on political actors for access to services and other public goods.¹³ In some cases, national strategies clearly serve the interest of the elite at the expense of broader based development. For example, profit from certain economic sectors is tightly controlled by elites who are linked to the centre of political power, and this translates into fiscal and monetary policies which benefit those sectors (such as banking and housing) rather than benefitting sectors which will better serve development goals (for example, productive sectors such as agriculture and manufacturing). Between 2012-2015, 76% of subsidized loans announced by Lebanon's Central Bank to create jobs and stimulate the economy through SME financing were invested in the housing sector, while a sharp decline in exports in 2015 led to a significant decline in activity for the manufacturing and agriculture sectors.¹⁴

This prioritisation of public investment based on political links, strategic political importance, or sectarian composition of certain regions¹⁵, regardless of poverty levels, development aims, or need for public spending, contributes to underdevelopment and marginalisation in some areas of the country, as well as a stagnating labour market. Unemployment in Lebanon reached 25% in 2017, with youth employment at 34% (SME forum, 2017). The North and Bekaa are among the most vulnerable areas in Lebanon - with 53% of the population of the North living under the poverty line in 2004 (the highest incidence of poverty in the country), and 29% of poverty incidence in Bekaa (above the average score for the country), but the level of public investment in these areas does not reflect the population's needs, exacerbating grievances of

¹¹ Lebanese Center for Policy Studies, September 2016, "Attaining Stability through Pro-Development Politics",

¹² Kawar, M., and Z. Tzannatos. 2013. "Youth Employment in Lebanon: Skilled and Jobless." Policy Paper, Beirut: The Lebanese Center for Policy Studies; and Al Akhbar, "Finding a Job in Lebanon: the Hidden Cost of Connections", article by Sami Atallah of LCPS: <http://english.al-akhbar.com/node/15771>

¹³ Lebanese Center for Policy Studies, September 2016, "Attaining Stability through Pro-Development Politics",

¹⁴ www.trademap.org: The total value of all exported product from Lebanon steadily declined from 4,446,163 thousand USD in 2012 to 2,976,600 thousand USD in 2016; <http://www.executive-magazine.com/economics-policy/lebanons-economy-weathers-a-tough-2016>

¹⁵ Salti, N., and J. Chaaban. 2010. "The Role of Sectarianism in the Allocation of Public Expenditure in PostWar Lebanon." *International Journal of Middle East Studies* 42: 637-655

relative deprivation and marginalisation.¹⁶ This is further compounded by the fact that refugees have also settled mostly in the most marginalised areas of the country¹⁷, with the North and the Bekaa hosting 61% of refugees.¹⁸ The lack of any national strategy to help local municipalities deal with this influx, which in some cases has more than doubled the local population, leads to significant pressure on local resources.

The Syrian crisis has contributed significantly to the economic downturn in Lebanon. Between 2011-2015, economic growth has slowed to 1-2%, after four years of averaging 8% growth.¹⁹ The influx of around 1.5 million Syrians into Lebanon, for a total population in Lebanon of around 4 million people, makes Lebanon the country that is hosting the highest number of refugees per capita in the world. Syrian refugees have increased the supply of cheap labour, to the benefit of Lebanese businesses, reportedly causing a reduction of up to 60% in daily wages in some villages in the Bekaa, impacting populations who would otherwise have competed for these jobs.²⁰ This means that while the economically marginalised low or unskilled Lebanese are further impoverished due to the influx of competing Syrian labour, many of the more affluent and politically connected Lebanese are profiting by the increase in demand for basic goods, services and cheap labour.

While employment is a major driver of disputes in Lebanon for both Syrian and Lebanese populations²¹, the dynamics of these disputes are more nuanced than sometimes depicted (as Lebanese vs. Syrian) and may also be increasing tensions within one population rather than across populations.²² When working in legal sectors, Syrians are often taking unskilled labour that would not be attractive to Lebanese workers and which traditionally have been filled by Syrian migrants who would have earned higher wages prior to the crisis.²³ When working in illegal sectors, there is intense competition between Syrian and Lebanese low-skilled workers due to similar profiles.²⁴ There are also tensions reported by the Lebanese around the 'greediness' of Lebanese employers for prioritising employment of workers of other nationalities for lower wages. Cheap Syrian micro and small enterprises are further straining the economy, by selling goods and services at much lower prices (particularly in light manufacturing and food production), posing a threat to small Lebanese businesses. While Syrian businesses have created an increase in the supply of goods, Syrian refugees' purchasing power is low enough

¹⁶ UNDP, 2008 "Poverty, Growth and Income Distribution in Lebanon."

¹⁷ Many of the most vulnerable communities in Lebanon are concentrated in specific pockets of the country: the majority of deprived Lebanese (67 percent) and persons displaced from Syria (87 percent) live in the country's 251 most vulnerable cadasters, out of a total of 1,653 cadasters (Lebanon Crisis Response Plan - 2017-2020)

¹⁸ <https://data.unhcr.org/syrianrefugees/country.php?id=122>

¹⁹ http://www.theodora.com/wfbcurrent/lebanon/lebanon_economy.html

²⁰ FAO. 2014. "Lebanon Plan of Action for Resilient Livelihoods." Beirut: FAO Representation in Lebanon.

²¹ Mercy Corps, 2017, *Overcoming the Effects of the Syrian Refugee Crisis: Understanding Perceptions in Lebanese Host Communities*.

²² LCPS 2016, "Attaining Stability through Pro-Development Politics";

²³ As above.

²⁴ BlomInvest Bank, "The Economic Burden of Lebanese Hospitality", <http://www.databank.com.lb/docs/The%20Economic%20Burden%20of%20Lebanese%20Hospitality%20-Blominvest-2017.pdf>

that the increase in supply has not been compensated by an increase in demand - and Lebanese are using these Syrian stores and services due to their cheaper prices.²⁵

The Syrian crisis, while impressive in its scale, is not an isolated event. Lebanon faces frequent political and security disturbances, creating an unpredictable environment for businesses. The country experienced a total of 114 internal and external crises between 2005- 2015 including violence, war, and political crises, making it critical for Lebanese businesses to become agile and flexible in responding to shocks.²⁶ A labour market assessment commissioned by Mercy Corps in 2015, surveying more than 200 businesses in the Bekaa and North identified that the two primary obstacles to growth observed by SMEs include the unfavourable security environment (with 82% of SMEs affected) and political instability (with 77% affected).²⁷ The effects of instability on the economy, coupled with a lack of government support to protect businesses against these shocks, are strongly felt by SMEs, many of which have closed down in the last 2 years.²⁸

Identifying how the SME component of INTAJ contributes to stability outcomes

In response to these drivers of instability, the interventions proposed by INTAJ under its SME component aim to achieve certain development outcomes that in turn should contribute to stability outcomes.

In order to combat the prevalence of clientelistic networks in the business sector, INTAJ aims to provide businesses with support to develop alternative business linkages to potential clients and suppliers, in addition to helping businesses establish more merit-based recruitment practices. This expansion of business networks should enable SMEs to increase their network of clients, suppliers and potential employees across political or sectarian divides, enable them to identify new business opportunities, and to increase productivity. In addition to these developmental goals, addressing the reliance on clientelistic networks also aims to achieve stability outcomes, by enabling connections across traditional divides, encouraging people of different backgrounds to work together in a positive economic relationship, building trust and improving perceptions so as to contribute towards increased social cohesion. While it is difficult to demonstrate these stability outcomes with the small sample size taken for this evidence paper, previous Mercy Corps research with refugee and

²⁵ LCPS, 2016, "Attaining Stability through Pro-Development Politics"

²⁶ El Chaarani H., El Abiad Z. (2017) Financial Behaviour of Lebanese Family Firms During Political Crises. In: Basly S. (eds) Family Businesses in the Arab World. Contributions to Management Science. Springer, Cham

²⁷ Beyond Reform and Development 2015, Labour Market Assessment.

²⁸ MoET, Lebanese Forum 2017

host communities in the Bekaa has demonstrated that positive economic interactions correlates with increased perceptions and overall trust of the other.²⁹

In order to mitigate the effect on businesses of frequent macro-economic shocks and conflict, INTAJ aims to support businesses to become more resilient, by improving their market competitiveness, management and operational practices so that they are better able to deal with shocks. Agile, resilient businesses with improved operational and management practices should be able to better plan for the future, and as a result, be less likely to downsize or close as a result of adverse economic shocks. Enabling businesses to stay open and productive, even in the face of crises, will contribute towards stability outcomes by enabling businesses to continue employing and thereby prevent grievances between Lebanese and Syrians over competition between micro/small enterprises and low/semi-skilled labour from rising further if the businesses were forced to close or downscale.

In order to mitigate the effects of a lack of prioritization of public investment in underdeveloped, marginalised regions such as the Bekaa and the North, and the lack of investment in sectors that will benefit these areas by creating jobs, INTAJ aims to provide investment and support to businesses across a range of sectors (including labour intensive and productive sectors), with the aim of stimulating job creation. The creation of jobs, for both skilled, semi- and unskilled labourers aims to improve perceptions of the opportunities available for income generation for people living in these areas, and contribute to reducing the tensions which exist due to lack of employment options. In addition, support provided to Lebanese businesses aims to reduce tensions which exist due to the perception that refugee populations are receiving more support and opportunities than host communities, notably by the international aid community.³⁰

In order to address the lack of quality business services in the areas targeted by the program, the INTAJ program aims to provide private business support to MSMEs, with the aim of increasing trust and future demand for these services. As a result of this intervention, businesses should demonstrate increased willingness to access such service providers in the future (including paying for their services), providing them with an additional resource to help them overcome challenges in the future. The accessibility of these business support services, as well as their quality and their ability to respond adequately to the needs of the SMEs targeted under the program, should enable businesses from this region to overcome internal challenges which threatens their ability to remain stable and grow in the future. In turn, the availability of these services for SMES in targeted regions should contribute to reducing tensions and grievances over unequal access to resources and exclusion.

²⁹ Mercy Corps, 2017, Overcoming the Effects of the Syrian Refugee Crisis: Understanding Perceptions in Lebanese Host Communities.

³⁰ UNDP, 2017, Regular Perception Surveys on Social Tensions Throughout Lebanon. Wave 1.

Methodology

Data Collection and Analysis

The data for this paper was collected through a mixed-methods approach in order to gain the needed depth of understanding of the SME component's contribution to improved stability and resiliency.

There were three groups of participants divided as follows:

1. Owners of SMEs who have completed their business coaching intervention
2. Owners of the BSPs that had been launched by end of Year 1 (March 2017)
3. Individuals who have been employed by the SMEs as a result of the INTAJ intervention

The qualitative data was collected through multiple Focus Group Discussions (FGDs) and Key Informant Interviews (KIIs). Mercy Corps developed semi-structured FGD and interview guides with oral prompts customized for the beneficiaries. The questions were derived from the objectives of the paper as mentioned above and revolved around the different aspects of stability and resiliency, and were translated into Arabic since most of the beneficiaries are more comfortable speaking in their native language.

The quantitative data was extracted from multiple sources including the baseline and endline surveys conducted with the SME owners and basic job surveys that are completed with the newly employed individuals.³¹ The baseline/endline surveys for SME owners collect data related to economic confidence, management practices, employment, revenue/cost, and satisfaction with the intervention. The job surveys for newly employed individuals collect data on the marital status and number of dependants for the employee, nationality and area of residence, as well as details on their satisfaction with the work environment and details on their previous work status.

Below is a summary table of the tools /method used and data collection implementation.

Stakeholder	Tool Used	Data Collection Implemented
SME Owners	FGDs	4 FGDs (2 Bekaa with 8 SMEs total, 2 North with 6 SMEs total)
	KIIs	2 SME owners in the North were interviewed
	Baseline/Endline Surveys	30 Baselines and 30 Endlines implemented with the SME owners
BSP Owners	KIIs	2 BSP owners were interviewed

³¹ Endline surveys are conducted with businesses as they graduate from the program, once they have completed the three phases of support from the business consultants.

Homogenous sampling was used to identify participants in the focus group discussions and key informant interviews, with over 50% of the 30 businesses who had graduated from the program support being contacted. These businesses were identified by the SME component program team as demonstrative (both positively and negatively) of the different theories that were proposed in the intervention framework for how the SME component contributes to different development and stability outcomes.

Limitations of the Methodology

The study was limited by the fact that INTAJ monitoring framework was not initially designed to measure the program impact on stability and resilience outcomes. Therefore all quantitative tools concentrate on the development outcomes which form the basis of INTAJ indicators (such as job creation, increase in revenue and decrease in costs, increased economic confidence).

The timing for this study also means that we had a very limited sample size for SMEs and business service providers. In order to be able to include quantitative data, and also to be able to assess the impact of the program once support has been completed with SMEs on both development and stability outcomes, we were limited to those SMEs which have been end-lined - which happens when they graduate from the program. This meant we had a relatively small pool of 30 SMEs for this study. Out of these, 22 SMEs were in the Bekaa and only 8 in the North. In addition, the BSP interventions are also still ongoing, which limits our ability to do a comprehensive analysis of their impact on stability.

Measurement of stability outcomes requires gauging beneficiaries' change in perceptions of other sectarian, political and national groups. Questions around this are very sensitive, and have the potential to raise concerns from beneficiaries, as well as to damage our ability to build trusting relationships with beneficiaries. While Mercy Corps is looking into ways that we can monitor this in non-intrusive ways under other programs such as our governance and FORSA programs, INTAJ's monitoring was not established in a way which enabled us to capture baseline values for this. In addition, given that the communications on the purpose of INTAJ do not focus on stability outcomes, but concentrate more on employment and business development outcomes, our ability to even capture meaningful anecdotal stories on this without raising suspicions at this point is limited. The focus of this study is therefore more strongly on the development outcomes that we believe will contribute to stability outcomes based on the intervention framework outlined in the initial sections of this document, and some analysis of what we know we have (or have not) been able to demonstrably achieve in terms of stability outcomes. We have provided recommendations on where further analysis is required to really assess the program impact on stability outcomes.

An Overview of the Small and Medium Enterprise Support Component under INTAJ

Business Coaching and Grants for SMEs

INTAJ aims to stimulate employment by providing SMEs with a combination of management support and in-kind grants.

Applicants to the program go through a rigorous selection process, including an initial application form, an in-depth interview for those that are shortlisted from the initial application, and a final assessment by an independent selection committee for those shortlisted after the interview process.

SMEs that are selected to participate in the program then receive customised business coaching that lasts between three to six months. This business coaching is provided by private business service providers who are contracted by Mercy Corps and who follow a standard approach which includes an initial business assessment phase, a business planning phase, and an implementation phase.

At the end of the business planning phase, consultants submit a report focusing on some improvement areas (such as sales, management, HR, etc.), with key actions identified, and in the implementation phase, the consultants coach the SMEs to implement these actions. SMEs also have the opportunity to apply for a grant of up to \$22,000. A selection committee assesses all grant applications and decides which businesses will benefit from a grant, based on criteria such as plan viability, potential for job creation, and capacity of the business to implement the proposed project.

From April 2016 to July 2017, INTAJ has selected 93 businesses for support in the Bekaa and North across various industries. A total of 52 businesses have successfully completed the technical assistance program, and 40 have received approval for in-kind grants to help grow their businesses. Outreach activities are being carried out to recruit the final batch of 27 businesses, to reach a target of 120 beneficiaries. Endline data has been collected from 30



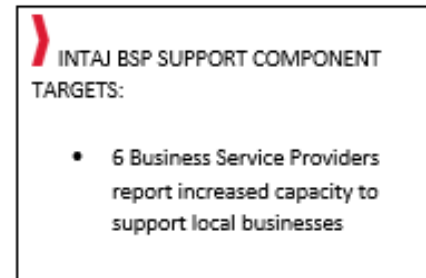
INTAJ SME COMPONENT TARGETS:

- 120 SMEs supported with business coaching
- 60 SMEs apply improved management practices
- 30 SMEs increase revenues or decrease costs
- 30 SMEs report increased hiring or future plans to increase hiring
- 200 jobs created
- 76 SMEs have increased confidence in their economic future (measured via market competitiveness, knowledge of labour market and demands, satisfaction with business growth, and ability to overcome business challenges)

business that have graduated from the program³², which has been used to inform this evidence paper.

Support to Business Service Providers to Establish Services in the Target Areas

A major constraint for SMEs, especially in peripheral areas, is the inaccessibility of quality business development services. With a large gap in public provision of business development services, NGOs and the private sector have become the leading players in providing market information, capacity building, network linkages, and financial resources. The climate for business development services however is underdeveloped, with unsustainable financing and intervention models. In addition, SMEs demonstrate low awareness on the importance of certain business development services, as well as lack of trust in these services, further undermining the market for the sustainable development of these services in the target areas.



Business Service Providers played a major role in INTAJ, both as implementing partners, as well as beneficiaries. To date, INTAJ has worked with seven BSP firms to deliver capacity building programs to SME beneficiaries, and has funded six additional providers to increase their capacity and support their expansion into underserved areas.

Business service providers in program delivery: Private business service providers contracted by Mercy Corps provided business coaching curricula to SME beneficiaries. Selecting competent business service providers for INTAJ proved to be difficult, especially in target areas, where options were very limited and generally lacked in quality. As a result, service providers for SME support were mainly selected from outside of the target areas, with 6 out of 7 firms located in Beirut and Mount Lebanon, and only 1 located in the North.

Business service providers as INTAJ beneficiaries: BSP beneficiaries funded to date by INTAJ include 5 local NGOs and 1 private firm. These BSPs provide services including management support and capacity building, market access, and networking, with results expected in March 2018. Below are the initiatives currently supported by INTAJ's BSP component:

- **Michel Daher Social Foundation:** MDSF was founded in 2014 with the objective to preserve the demographic composition of rural areas in the Beqaa region in Lebanon, and to reduce migration to urban areas or abroad. Engaged initially under the Skills component of INTAJ, providing successful electrical industrial maintenance, mechanical

³² Businesses which have completed the three phases of technical assistance from the consultants, and who have either already received their small grant, or who which will not receive a small grant.

industrial maintenance, quality control & food safety, supply chain, processing engineering and packaging engineering courses, they applied for a BSP grant. This will focus on supporting SMEs in the development of different functions in order to be able to grow their businesses. (e.g.: employees training, outsourcing, system optimization, business coaching services, etc.), and youth empowerment through capacity building (training on soft/technical skills, vocational training, orientation) and through connecting youth to job market (internship, full time/part time/summer jobs, internships and volunteering).

- **SHIFT Incubator** is an NGO that serves one of Tripoli's most vulnerable and conflict ridden neighborhoods, located between the alawite community of Jabal Mohsen and Sunnite community of Qobbeh/Tebbeneh. SHIFT is an incubator that enables local residents of both communities, as well as refugees, to interact through various activities and services they provide and which aim to stimulate a socio-economic transformation of the area. INTAJ will support SHIFT to develop their BDS services for MSMEs located in this area, enable SHIFT to carry out an in-depth diagnostic of 400 businesses of the services they required, and then establish a BDS provision model including coaching and mentoring, and will test it with 10 businesses. In addition, SHIFT will train a core team of 20 community mobilisers (SHIFT'ers) from different nationalities and sects, and who will engage in supporting community-led socio-economic development initiatives across lines of division, in order to promote social cohesion in the area.
- **Lebanese League for Women and Business (LLWB)** provides capacity building and networking for Lebanese women in business. With members mainly from Beirut and Mount Lebanon, the organization has been trying to expand into more marginalized areas such as the Bekaa and North. INTAJ supports the setup of new chapters of the organisation in both the North and in the Bekaa, to recruit new members and implement training and networking activities to benefit 50 businesswomen from each region.
- **DPNA (Development for People and Nature Association)**, an NGO based in Saida with a sub-office located in Tripoli, is receiving support from INTAJ to set up an internship center in partnership with the Chamber of Commerce, Industry and Agriculture in Tripoli (CCIAT). The program aims to improve skills of 120 fresh graduates by providing them with training and internship opportunities that enable them to develop their experience, as well as supporting 30 large and medium sized businesses to successfully manage and benefit from interns in key areas in which they require support.
- **Souk el Tayeb (Traditions and People)**, an NGO based in Beirut that aims to celebrate food and traditions that unite communities, as well as support small-scale farmers and producers, is receiving support from INTAJ to establish a farmers' market in Zahle. An initial grant was given to enable the NGO to carry out a feasibility study for the market, and a second grant was provided to enable the NGO to pilot the market in partnership with Zahle Municipality. The market will provide at least 30 local farmers and small scale producers with a platform to access a wider network of customers and to sell their products at retail prices to end consumers.
- **Standards Consultants**, one of the BSPs based in Beirut that is engaged with Mercy Corps as an implementing partner providing coaching to SMEs, applied to INTAJ to establish a permanent presence in North Lebanon. They will provide professional

services and capacity building to businesses in the region to improve their management and enhance their competitiveness, as well as market-driven skills building courses to individuals to help them improve their employability in line with market needs, and they will organise business networking events to the benefit of 640 companies from the region, and 1200 individuals.

Key Findings

Creation of new business linkages to replace the traditional patronage system

The support from INTAJ to enable businesses to develop their network of clients, suppliers, and potential employees and to expand beyond traditional patronage networks was provided through the consulting BDS firms that were engaged by Mercy Corps.

Reports from the focus group discussions and key informant interviews confirmed that **many businesses have established systems to enter into business with new clients and suppliers, or have actively formed new partnerships as a result of the intervention:**

“[INTAJ’s consultants] helped me add 3-4 clients...and we did meet new suppliers and decide to work with them later” (Al Rubhan Dairy).

“The effect of INTAJ on [expanding networks] was indirect. It was not like INTAJ came and said ‘we will introduce you to this person’ or ‘we will increase your contacts’. It was indirect but beneficial. Now I have more time...more time to talk to people. Before I was under a lot of pressure and I used to get calls from clients but not be able to answer them. They would say “you don’t want to work”. I would get bothered but I had a capacity that I could not go over. Due to the administrative development, now we have more time. So within the last 4-5 months we have added many new clients.” (Misso Spices)

This increase in networks was achieved through a number of means: indirectly, as a result of other improvements in managing the business which meant there was more time or resources available to pursue increasing their networks; directly, through the business consultants connecting the SMEs with relevant clients, suppliers, or vendors, or directly, via networking events in which the SMEs participated. In some cases, the consultant’s support helped a business to overcome a challenge it was facing in contacting potential clients that they had already identified, but for others, the support provided facilitated a real mindset shift for the SME.

“We had a big problem reaching decision makers...we targeted big clients like Aishti, and we couldn’t contact [the decision maker]...[the consultants] connected me directly to that person. The network that they opened to us is a direct network to those who are the influential people. They opened our network in Beirut.” (Off the Wall)

“The consultants built an excellent marketing plan...the truth is, in the past, customers used to come to me for their purchases; I’ve never visited a client or organisation to offer them my products. But nowadays, there are new sales tactics where you reach out to clients to offer

them your goods. Visiting clients for selling the products is an expensive thing, but aims to realise high profits... I started to target the hospitality sector..." (Zoltex)

These new networks are important as they should **allow businesses to seize more business opportunities, and expand their operations**. Many businesses interviewed gave examples of how this was indeed happening. At least four of the SMEs gave examples of their clear plans to expand operations outside their current areas of operation, either in Lebanon or overseas:

"We used to be localized in the areas of the North but now we are becoming a little bit more recognised outside of these areas, and it is giving us the courage to explore more external markets (in Beirut and the South)" (Al Rubhan Dairy).

"We wanted to open a line in Akkar...we met someone who has some connections in Akkar and we started working with him almost 20 days ago and hopefully we will be successful" (Misso Spices).

"[Due to the support provided by INTAJ consultants], I learnt that the biggest states that import the lebanese groats (bourghol) are Canada and the US. I noticed as well that Al Wadi Al Akdhar Company' is the biggest exporter. So I created a network with them to sell some of my products that they don't have' (Al Berdawni Trading)"

In some cases, the expanded networks which have been developed as a result of the program have had additional knock-on effects in terms of promoting stability, as is the case for NatBio, whose new ability to connect and provide upfront payments to farmers to switch to cultivation of organic wheat has contributed to providing an entire farming community with a viable economic alternative to the illicit production of hashish which is common in that area (See Annex 1 for a case study on NatBio).

In the case of hiring new staff, the program aimed to **promote merit based hiring and contracting practices to move away from recruitment based on personal connections**. The issues around recruitment practices and the negative impact this can have on business operations are clearly felt in the targeted areas. Identifying some of the issues that DPNA are facing in engaging SMEs to participate with their internship center, they note that *"selection of employees is being done based on family, on wasta, on friendships, on relationships like neighbours etc. Very few enterprises actually focus on qualifications"*. Describing the typical situation that consultants encountered with businesses they supported, Standards attributed the recruitment based on personal recommendations to key failures in terms of being able to then manage and hold that employee accountable: *"Let's say we have someone in Tripoli, who wants to hire. They would ask around and would welcome someone who had been recommended. So the owner hires that person, and then it turns out that they are a relative of this person or that person. So the employer would not be able to reprove the employee, or task him, or ask him about the target set. They wouldn't even be able to direct this employee. The employee becomes a burden and the owner would be doing double the work and paying the salary of the employee"*.

In the focus group discussions and key informant interviews, many SMEs confirmed that while some jobs require experience and a certain education level, for many they based recruitment decisions on 'willingness', and 'readiness to acquire the necessary qualifications with 1-2 months of training' (Al Rubhan Dairy). When looking for candidates which require a certain expertise, many SMEs stated that the priority would go to finding someone with the right skill set, "regardless of whether they come from the same region, hometown or family".³³ Many businesses stated as one of their primary constraints the lack of qualified workforce in their areas of operation, and their inability to find quality candidates.

› "The company will evolve if you hire the right person for the right job, regardless if it is a relative from your area"

WWW.sarl (Bekaa)

In some cases, the intervention from INTAJ had assisted businesses to shift to new recruitment methods which enable them to source from a wider pool of candidates outside of personal networks (for example, posting with universities directly, posting online, through social media, through LinkedIn, via job fairs). However, many of the changes did not come through how the companies source potential candidates, but in how they go about assessing their competencies for the job. SMEs interviewed mentioned that they had significantly changed the way they interviewed for jobs: "you ask questions

› How we conduct the interviews has changed, however, how we look for potential employees has not changed...what we have are contacts from before that we have compiled and we rely on them when we need someone.

Off the Wall (North)

and want to know everything about him that you didn't use to ask about. Why did you leave your old job? Why did you chose us?" (Off the Wall). Another SME affirms that "now we have four phases to recruitment: screening, know your candidate, behavioural and then technical. The person has to go through them all. So in these interviews, there are no right or wrong answers, you get to see how he thinks, his thought process, what his skills are...from these interviews and as he progresses through them, you can get further confirmation that you want to hire this person, regardless of what degree he may or may not have" (Perla).

Personal recommendations are still appreciated by businesses, but are not considered necessary, and education level is deemed to be less important than "the person having the skills and the way of thinking so he would be able to learn and grow" (Perla). In some cases, these new practices seem to have encouraged business owners to move away from hiring family members. For example, for Al Rubhan Dairy, a family business in Zgharta, INTAJ helped develop an expansion plan to develop new products based on an in-depth local market study. A new organizational structure was designed and implemented, resulting in hiring a Syrian

³³ This comment came from one of the following: Menassa Metal, Tiles and Co, Berdawni Trading or George Wadih Dib. Due to the poor quality of the recording of the interview, it is difficult to identify which business said this.

production manager, replacing one of the brothers. Although this initially created some tension in the business, INTAJ maintained close follow-up to ensure a smooth transition into the new role. *“He has the right qualifications and skills that we couldn’t find in any other Lebanese candidate”*, said Mohsen Al Ruhban- owner. After the coaching they received through INTAJ with Standards Company, they say that they are now more aware of the human resources needed for their business growth. He adds *“Qualifications come first, regardless of any other consideration”*. Al Ruhban Dairy is located in North Zgharta; an area which is considered one of the least welcoming places for the Syrian refugees.

However it is clear that merit-based recruitment will not totally replace recruitment based on family allegiances: *‘my kids still go down to their cars and go out and do the distribution... it is not wrong’* (Dairy Tannoury). One business, disappointed by the lack of return that he had seen on his investment in four sales persons who had not yet brought in additional clients, went on to state (to the general disagreement of all other participants in the focus group discussion), that *“each person who grows a lot and relies on his employees will fail...all companies will go back to being family businesses. When a person is working within the family he moves forward, otherwise he will not”* (Kaysar Ata), demonstrating just how tenuous advances in this domain can be given the deep seated cultural roots for favouring and trusting in familial and clientelistic relationships. It also demonstrates the need to ensure advances in merit-based recruitment are coupled with improvements in management of staff - to make sure that all new employees receive the follow-up they require to be productive.

In addition, there do seem to be different practices for hiring unskilled workers compared to more skilled workers, and discriminatory mindsets definitely still exist with a number of businesses who were engaged in the focus group discussions and interviews - with some businesses stating that they employ Syrians as they are cheaper and have a better work ethic, some businesses stating that they would only employ Lebanese (despite the issues they perceived around commitment and work ethic), and others stating that hiring women is not appropriate for some work. In addition, some employers clearly state that they hire Syrian’s through the sponsorship system in order to ensure their loyalty: *“There is a syrian worker who I sponsored. At first I used to run after him and now he runs after me. He cannot take a step without my permission. If he leaves me I can call the authorities and inform them and they will catch him and give him a choice. Either he leaves the country or he finds another sponsor”* (Misso Spices).

Therefore while it seems clear that INTAJ’s intervention did enable businesses to expand their networks and recruit using different techniques, and that this had a clear impact for some SMEs on their productivity and their ability to seize new business opportunities, it is unclear to what extent these development outcomes will have an impact on improving stability outcomes. Given the existing body of literature that demonstrates the impact in terms of increased social cohesion of bringing together people of different backgrounds in economic and social interactions, it is safe to assume that the support INTAJ has given to enable businesses to expand their networks beyond their regions will have had some positive effect in contributing to social cohesion.

Where it is less certain INTAJ has had an impact is in encouraging improvements in perceptions and trust of the 'other' community by enabling individuals of different backgrounds to work together. INTAJ 2 did not specifically aim to create jobs for specific nationalities (either Lebanese or Syrian), or to ensure that businesses were recruiting people from 'other' communities, but rather focused on ensuring that merit-based recruitment practices were followed, and that the businesses were hiring positions which would allow them to grow. Out of 59 jobs created (3 with BSPs and 56 with the 30 SMEs who have graduated from the program), only 4 were for Syrians. In addition, most jobs were for people residing locally to the business. As the program does not collect data on confessional group for Lebanese, it is not possible to make any conclusions about the program's effectiveness in bringing together different confessional groups. As the program also does not concentrate on assessing the overall working conditions, supervisory relationships, or addressing conflict and protection dynamics which may exist within the workforce, it is difficult to assess whether the SMEs engaged in the INTAJ program are promoting positive economic interactions between individuals of different backgrounds or not.

Fostering resilient businesses to enable them to withstand adverse economic shocks

The local business landscape is dominated by SMEs (93%) and family enterprises (90%).³⁴ However, these businesses often lack the sufficient resources and planning practices to address a volatile market environment. An analysis of applications received during the pilot phase of INTAJ revealed that most businesses do not engage in future business planning and forecasting, and only 25% of businesses asked had at least a basic business plan. The INTAJ 2 intervention therefore focused on supporting businesses to improve their operational, managerial and production practices to enable them to become more agile and resilient, and capable of planning for the future, in order to enable them to withstand future adverse economic shocks.

Results from the focus group discussions pointed to **key improvements in a number of domains, notably in improved internal decision making processes, improved ability to deal with competition, an improved understanding of the market, improved management skills, and a greater capacity to plan pre-emptively and anticipate risk.**

"I used to do everything. I used to do manual labour, I used to work on distribution, I used to work on hiring, and I used to work on accounting...today I am only focused on management and administration as a buyer and as the manager. Now I have room to focus on the production and the development... to begin with, we didn't have time to make decisions"(Misso Spices).

³⁴ MoET, 2014

“We used to make decisions in a random way, but today we do not, there are more administrative meetings than before. We use studies to help us wherever possible to decide before we make the next step. Sometimes it is with the new people that we have recruited who are specialised in certain areas and who have their experiences that may benefit us. All the administrative structure has changed - including the accounting program...we have a new program that is automatic and anything you need can be provided with the press of a button. These things help. Now we don’t make decisions the way we used to, based on our whims. Now we look at need and how they may increase sales and how much money it could potentially bring into the company to cover its expense.” (Al Rubhan Dairy).

Strategies to improve competitiveness range from product diversification to meet the changing market demand, competing on a basis of quality, simple techniques to reduce costs while retaining quality so as to compete with cheaper products, and constant innovation to stay ahead of the curve. Most of the participants in the focus group discussions stated that they felt their ability to compete had been improved as a result of INTAJ.

“INTAJ enabled us to understand how we stand out in the market. When I entered the market in more depth, I realised that I am able to compete with bigger companies. Furthermore, once I was in, some of the big enterprises felt that I was a real competitor who put them in a danger situation. I can compete in terms of quality; ..I used to look at them as giants, today I am ready to take similar projects to the ones that big companies apply for. This has given me self-confidence, made me aware of my hidden abilities; I am not scared anymore”³⁵

The SMEs interviewed mentioned a number of **techniques they are using to plan ahead and anticipate shocks**. This includes having a margin set aside for dealing with issues such as large clients leaving them, investing in staff and systems to be able to respond quickly to shocks, including risk mitigation plans into annual strategic planning, ensuring a diverse range of sources for raw materials so as to avoid being affected if one of those is no longer viable, and ensuring access to multiple markets both in Lebanon and external to Lebanon.

“The most critical issue that the consultants helped me with was working on the long-term...they alerted me to the company’s situation 10 years from now which is something I was not aware of, and I was always worried about what will happen tomorrow. My perception of this matter would not have changed without the consultant’s help”³⁶

Many SMEs also noted their **improved understanding of the market**, and therefore an ability to target their production and sales in a more focused way, as a result of the consultants interventions

³⁵ This comment came from one of the following: Menassa Metal, Tiles and Co, Berdawni Trading or George Wadih Dib. Due to the poor quality of the recording of the interview, it is difficult to identify which business said this.

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“The consultants helped us understanding the real market needs 100%, thus we are not producing goods that aren’t a need in the market any more”³⁷

“We used to take the market as a whole area...what we did with the consultants was to segment it into sectors, like hotels for example. They organised this view of the market for us. The approach we had in mind may not have been possible, they made it easier for us...we started reaching more sales. We are a team of four sales people and we divided the sectors by the sales people. It was a good segmentation.” (Tragging)

“We weren’t focusing on the companies Our services only covered households. However, when we started working with Standards, they told us we should focus as well on the companies in order to gain a sort of fixed profit. And that’s exactly what we worked on.” (Cyana)

Many businesses praised the effect of **restructuring their internal structures in terms of enabling them to better manage and motivate their employees, and how this enabled them to be more productive**. Out of the 56 individuals that were recruited by SMEs as a result of INTAJ interventions, almost all responded that they feel satisfied with their working conditions (based on questions around feeling safe in the workplace, having access to bathroom facilities, not feeling crowded, being able to communicate with peers and discuss with supervisor).³⁸

“The work is more organised. Everything is more comfortable. Before, there was multitasking required of everyone in the company. I was marketing and sales and testing... When the structure was properly divided and each person was provided with what they are responsible for, what they are accountable for, and who to report to, then there was no need for anyone to be jumping from one position to the next. It gives you peace of mind and you save time. When you save time, you can get to work and organise yourself.” (Tragging)

“Through focusing on the qualifications of the employees, putting each employee in the right place and not giving them more than a role... I realised that I need to get to know each of the employees quite well and recognize their areas of strength in order to allocate these capacities into the right tasks; which will eventually lead to more awareness and efficiency in the job. I didn’t recognise the importance of this before” (Zoltex)

In addition, businesses identified strategies for retention of good employees, ranging from providing them with a decent and competitive salary, giving bonuses and shares in the company, treating employees well, providing them with social security, providing training for employees, and offering people contracts that suit their personal situation (such as part time contracts for married women to enable them to balance their personal and professional life).

³⁷ As above

³⁸ 100% responded they felt safe in their workplace, 82% responded that they did not feel crowded in the workplace, 100% responded they had access to bathroom facilities, and 100% responded that they were comfortable discussing with both peers and their supervisors.

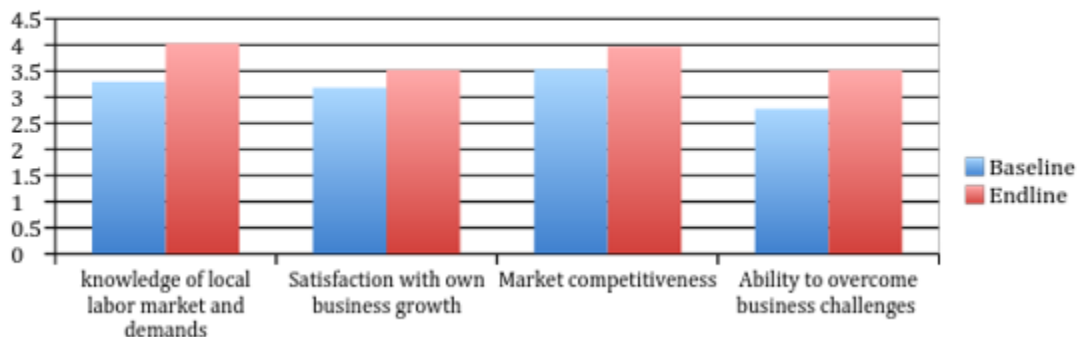
Some businesses clearly attribute hiring new personnel to increasing their productivity:

“[Now] I have someone responsible for distribution, so I can add on more workers, I can increase my production....I am selling to one person and this person is selling to 10 people. All these things were not there before.” (Rubhan)

“Now [that we have recruited someone to work on quality control] there is even quality control on when we buy something from a supplier. Now, even before we accept the product, it is checked and if something is wrong, it is sent back immediately to the supplier. There is no more waste of time or products. The percentage of clients receiving a product with faults in it is less than before and this has helped us a lot” (Perla).

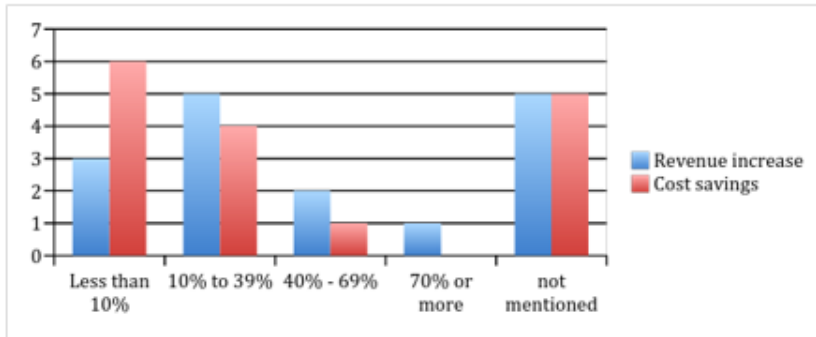
This improvement in internal operations is supported by the quantitative data, which shows that 60% of 30 SME beneficiaries that have graduated from the program demonstrated **improved economic confidence** by an average of 25%. Economic confidence was measured using 4 indicators on a scale of 1-5 (see figure below).

Figure 1. Average economic confidence indicators: baseline vs. end-line



SMEs also reported having higher profits and improved ability to compete. 63% of businesses reported increased revenues and/or decreased costs, attributed to working with INTAJ (see figure below). Achieving higher revenue appeared to be correlated with receipt of grants, where 15 out of 16 had received a grant at least \$15,000.

Figure 2. SMEs that reported higher profit, distributed by percentage revenue growth and percentage cost savings



A few businesses clearly noted that the INTAJ intervention has **decreased their likelihood of downsizing or closing down in the future**. While Cyana, a company specialized in providing integrated maintenance services, stated that “*Without the presence of INTAJ support, I wouldn’t have been able to survive on my own*”. Zoltex, a linen manufacturing and retail company, mentioned that the INTAJ program gave him hope at a moment when he was “*planning on selling all my properties and leaving the country*”.

“*We used to run with things as they came along. Now we are in control and we are able to analyze our work and identify what we are doing right and what we are doing wrong. Now we are more stable. There is strength in the process that was not there before*” (Misso Spices).

Investment and support to businesses in marginalised areas across a range of sectors (including labour intensive and productive sectors), to stimulate job creation

Targeting two of the most marginalised areas in Lebanon (Bekaa and North Lebanon), INTAJ provided support to SMEs across a range of sectors.³⁹

While the program does target marginalised areas, within these governorates, it is clear that the INTAJ intervention has managed to target more SMEs in areas which are relatively more developed (for example, 76% of businesses integrated into the program in the Bekaa are from Zahle, with only 11% from Baalbeck, 9% from Rachaya, and 2% from West Bekaa).⁴⁰ This is primarily due to the economic makeup of these zones, where there are more businesses which meet INTAJ selection criteria in the more developed areas, given the predominance of smaller

³⁹ Out of the 77 businesses currently integrated in the INTAJ program, 65% are in manufacturing, agro-processing, or artisanal manufacturing, 27% in services, and 8% in retail

⁴⁰ Out of 42 businesses receiving support from the program in the Bekaa, 32 are based in Zahle, 4 in Rachaya, 5 in Baalbeck and 1 in West Bekaa. Out of 34 businesses receiving support from the program in the North, 21 are in Tripoli, 4 in Zgharta, 3 in El Koura, 3 in Minnieh Dannieh, 2 in Bcharre and 1 in Batroun.

and often informal businesses in the more economically disadvantaged areas. However, there is also an element of difficulty in outreaching to businesses in some more vulnerable areas, such as Al Tabbaneh and Jabal Mohsen, where Mercy Corps is seen as an 'external entity' and needs to build trust relationships with businesses in order to encourage them to apply.

To mitigate this, Mercy Corps has adopted two main strategies, which are still being assessed for effectiveness:

- In order to address trust issues and source businesses from more sensitive, 'closed' areas such as Al Tabbaneh and Jabal Mohsen, Mercy Corps is partnering with incubators and NGOs from these areas (such as Shift and Rouwwad El Tanmiya in the North) to source potential businesses. This has led to the integration of 'Shapes Design', a furniture design and manufacturing business from Al Tabbaneh into the INTAJ support program, as well as a construction company from Al Tabbaneh, and has led to discussions with a clothes factory from Jabal Mohsen which might apply to the program. Positive experiences and satisfaction with the support from the program to these businesses should provide a snowball effect, as businesses such as Shapes Design begin to recommend businesses they know from the area to apply for support from INTAJ, and act as a guarantor for the trustworthiness of the program for businesses interested in applying. This increased trust then evolves into partnerships formed under INTAJ, which work towards alleviating peoples' perceptions of being 'left behind' in their country's development because they do not have the social capital to access either business support services and/or capital. Opening these channels and opportunities is a major step in potentially increasing engagement of a larger number of beneficiaries from these communities.
- In order to address the issue of businesses in more vulnerable areas being unable to meet INTAJ selection criteria, Mercy Corps is just beginning to pilot a new "hybrid" business coaching support model. This model will be a combination of management training focusing on one topic that SMEs need (marketing, sales, organizational management, finance etc.) along with mentoring at a smaller, more focused scale than the model previously used. SMEs enrolled in this model will have a profile slightly different than the ones enrolled in our classic model; they will be smaller, in the same neighbourhood, from the same sector and will have in common one major management or business challenge. So far, seven SMEs were selected for piloting this hybrid model from the Baalbek area (Bekaa). Their key employees will receive sales training coupled with individual market visits for more customized, hands on support. This new model improves our capacity to reach vulnerable areas with weaker economic environment (such as the north Bekaa) where most businesses have limited capacity and can not meet Mercy Corps' criteria for intense coaching.

With regards to the different sectors targeted under INTAJ, most of the 30 SME beneficiaries assessed for this evidence paper are engaged in manufacturing in one form or another, with 72% of businesses engaged in manufacturing, agro-processing, or artisanal manufacturing. These sectors also created 75% of the jobs - demonstrating that although investment in labour

intensive and productive sectors makes sense in order to stimulate greater employment in the long-term, on the short-term, concentrating on these sectors does not yield higher employment outcomes than working in other less labour intensive sectors.

An analysis of the 30 SMEs showed that the support provided resulted in 56 people securing employment at 16 businesses, with 50 of the jobs being full-time.⁴¹ SMEs located in the Bekaa hired 43 new individuals, while those in the North hired 13. The difference in employment outcomes in these two regions is due to an intentional focus on the Bekaa region at the start of the program, which therefore meant that out of the 30 SMEs for which we have endline data, 22 are from the Bekaa and only 8 are from the North. Positions were mostly filled by residents living in the same district as their employer. However, 7 individuals in Mount Lebanon were hired by employers outside of their governorate by SMEs in the Bekaa, all of whom work remotely in sales or distribution.

Business management and administration accounted for more than 50% of new employment opportunities. This also implies that new employment was mostly for jobs requiring at least a basic skill level, while non-skilled jobs accounted for only 30%. Higher skill jobs tend to be higher wage and more stable compared to non-skilled jobs that are often informal. However, data on salaries and job registration was not collected, as many business owners would be hesitant to share this data.

As previously, while it seems clear that the INTAJ intervention is having an impact on job creation, from the data collected to date it is not possible to tell at this stage whether this has an impact on reducing host-refugee resource-based tensions around access to employment, or whether the support provided to Lebanese SMEs is reducing the tensions related to the perception that most support from international donors is being funneled towards Syrians.

Improvement in Business Support Provision in Targeted Areas

INTAJ aimed to demonstrate the value of private business consultancy with SMEs in the Bekaa and the North, as well as to demonstrate to business service providers that there is a demand for services from SMEs outside of Beirut. Evidence from the focus group discussions and interviews confirms that the program was successful to a certain extent in both these aspects. Standards Consulting confirms that without INTAJ, they would not have been able to establish in the North.

“First of all, I wasn’t aware of the need, and second, it was not affordable. I didn’t see the potential... All the consultancies and training firms are located in Beirut, no one goes to the [North or Bekaa] because maybe they think it is a long distance, maybe they think they will not get paid in the market there as in Beirut. In Beirut the competition is high...we started visiting Bekaa and the North with INTAJ, and we found there is a need for consultancy and training firms in these areas” (Standards Consultants)

⁴¹ Note that information on employment and other indicators are collected from SMEs after at least 8 weeks of graduating from the INTAJ support program.

In addition, more than 60% of businesses maintained close relationships with the BDS providers contracted by Mercy Corps after completion of the INTAJ coaching intervention. In 2 cases, the SME commissioned the BDS provider for additional services. One consulting firm also claimed, that after working with an SME in Rachaya, a remote town in southern Bekaa, they started receiving requests for their services from this area. SMEs involved in the focus group discussions also confirmed having recommended the consultants and the INTAJ program to their colleagues. They also stated that they are more convinced about hiring consultants in the future, 'but with a limited budget'.⁴² The businesses almost all recognised that the intervention from the consultants helped them to overcome challenges, or gave them the confidence required to move forward.

"Honestly, for me, it gave me confidence in my project... it was a push, both morally, emotionally and financially in some places" (Natbio)

"I wanted to hire someone... the idea was not a new one, it was in my head for more than ten years... Then we met you and it paved the way. There were some barriers because you know it is human nature to be afraid of new things and so when someone with experience comes along and minimizes these barriers then the person gets the courage to take this step and this is what happened with us" (Misso Spices)

Despite this growing trust in BSPs in the region, there remains real questions around the market viability of such interventions in the long term in the absence of government support. Standards, a private company, has had significant difficulties in achieving the results they anticipated during the 'pilot' period in which INTAJ is funding them to test whether they are able to make the business in the North sustain itself. While INTAJ funded Standards to set up in the North, and to do communications and outreach activities, as well as an initial audit of businesses, in order for them to recruit paying clients, they have been unable to reach the targets outlined in their delivery plan. After discussions between Mercy Corps and Standards, it was agreed that they would have difficulty achieving the full scope of the grant as originally outlined and it was agreed to end with agreement with only half of the deliverables met.

Likewise, DPNA's civic initiative will need to find a viable source of funding given the Chamber of Commerce, Industry and Agriculture in Tripoli's unwillingness to invest financially in the project in the long-term: *"[the CCIAT] are not willing to pay one dollar on such an intervention, because what is being done falls between research and support for academic institutions and businesses so that they can provide employment opportunities for their students. So we are supposed to have financial support from universities"*. The same concern is true for the other four initiatives currently funded under the BSP component of the program.

⁴² This comment came from one of the following: Menassa Metal, Tiles and Co, Berdawni Trading or George Wadih Dib. Due to the poor quality of the recording of the interview, it is difficult to identify which business said this.

While the program has increased the willingness and ability of businesses to access business support services, enabling them to overcome challenges, it is unclear what effect this has had on grievances against exclusion and unequal access to resources. Such services cannot replace the need for improved governmental support to regulate the business environment and to provide incentives for businesses, particularly given the relatively small scale and short duration of the INTAJ intervention. *“Just yesterday, we were talking about INTAJ playing the role of the government in supporting small and medium businesses, meanwhile the government is putting pressure on these people. They pay electricity, generator, water, services and taxes, whereas INTAJ is supporting these people in sections of their business in which they never thought about investing, and this is making their business better...”* (Standards). Frustration around governmental support for SMEs was apparent in all focus group discussions and interviews.

“We have a high quality product, but we cannot impose something that the government should be setting. It is a problem with the government that should protect you and generally put standards for the work” (Misso Spices).

“I pay all the taxes for the government, noting that 90% of the manufacturers in Lebanon don't pay any of these duties to the government and no-one is punishing them...my expenses are higher than others in the same industry. I don't steal electricity and I've got expenses like NSSF, VAT, an accountant and the company's lawyer; the rest of the companies don't have any of these expenditures. The government isn't providing me with the tools required to be a pure industrialised business. The tools can be such as providing good industrial land; and if the government offered you this land, it imposes very high leasing amounts that can surpass your profits...” (Zoltex).

Lessons Learned and Recommendations

To ensure that economic development programs in Lebanon that focus on SME development and stimulation of job creation contribute in a meaningful way to stability outcomes, it is important that programs explicitly take into account the desired stability outcomes at program design and start-up.

Key recommendations are as follows:

- **Clearly define stability and resilience and include relevant outcomes in logframe indicators from the outset, so that they are reflected in monitoring plans.** At program design stage, DFID and the implementing partner should clearly define what stability and resilience outcomes should be addressed under the program. Given the complexity of the context in Lebanon, and the multitude of drivers of instability both between host communities and refugees, but also within the Lebanese communities, it is essential to jointly define upfront which drivers of instability the program hopes to address and clearly develop monitoring and evaluation plans based on this. This would enable program teams to more effectively to understand the nuanced dynamics around

stability in the different contexts where the program is implemented, as well as to assess on an ongoing basis how well the program is managing to contribute to these, to enable them to course correct as required.

- **Continue investments in research and evaluation components, looking in more detail at the links between improved operational, management and production capacities of SMEs, improved networks, job creation, and social stability outcomes.** While there is a body of evidence globally looking at the contribution of employment to stability, and the contribution of economic development to stability, there is very little evidence linking employment and business strengthening to social cohesion outcomes. In addition, the social dynamics are extremely complex in Lebanon, due to the range of confessional groups, political allegiances, and nationalities present in different areas. Delving into social cohesion issues can be extremely sensitive, and could be better carried out by an external research entity, rather than directly by the implementing agency. Research and evaluation should clearly link to the stability and resilience outcomes identified at program design stage, and include impact evaluations to either prove or disprove hypotheses around business development and social stability in the Lebanese context.
- **Integrate an intentional focus on promoting social and economic interactions between different population groups to promote social cohesion outcomes.** Research has demonstrated the importance of bringing diverse population groups together in both social and economic interactions to build positive perceptions and trust, and this has also been confirmed by studies carried out by Mercy Corps in Lebanon. While the INTAJ program does focus on increasing networks, building relations and improving recruitment practices, it does so mostly with a perspective of improving business outcomes, and has not placed an intentional focus on also improving social cohesion between diverse groups through this activity.
- **Integrate a greater focus on improvement of human resource management, to ensure that businesses do not contribute to increasing grievances and tensions through discriminatory practices or unfair treatment.** While economic interactions between diverse population groups can have a strong positive impact on social cohesion, when economic interactions are negative these can also have the opposite effect. The work environment is an area which can be exploitative, and care should be taken to help businesses assess the strengths of their current human resource management practices, as well as enabling them to address any issues which could be causing problems for different population groups. This should take into account issues faced by individuals of different sexes, ages, confessional groups and nationalities.
- **Place a stronger focus on increasing public sector engagement in developing quality, sustainable decentralised business development services in economically disadvantaged areas.** INTAJ's aim was to pilot different types of BDS assistance and demonstrate both the effectiveness of this model in terms of employment and business development outcomes. It also included a small focus on assisting BSPs to develop sustainable services, through the allocation of grants for BSPs. While programs such as INTAJ have potential to reduce grievances around exclusion and lack of access to resources, particularly given the focus on supporting Lebanese businesses at a time

where there are perceptions that most support is going to Syrian refugees, this will remain a short-term solution until there is greater public sector engagement or sustainable business models for BDS services.

- **Include advocacy activities to enable businesses to coordinate and voice any grievances they have and to develop recommendations to address some of the weaknesses in government support** which would have an impact on helping businesses in these marginalised areas to survive and create jobs.
- **Focus on piloting and demonstrating the effectiveness of business support methodologies that are appropriate for businesses in more marginalised areas**, in terms of supporting them to develop and create jobs. While there has been some success in reaching businesses in the more marginalised areas of the North and the Bekaa, the program has had to adapt approaches to move effectively reach these businesses. This includes different outreach methodologies, as well as different support and coaching methodologies which are more appropriate for smaller businesses that would not necessarily have been selected through the classic support model developed under the program.

Annexes:

Annex 1: Case Study on NatBio - Providing Farmers in Dayr al Ammar with an Alternative to Illicit Marijuana Production

Nat Bio wanted to expand its production but they were struggling to find enough supply of locally grown organic spelt wheat. Farmers in Dayr Ahmar, an area known to be engaged in lucrative but risky tobacco and illegal Marijuana cultivation, were nervous about switching to unknown organic spelt varieties that only produced one crop per year. The only solution was to offer to pay them in advance of growing the crop but the business was concerned about making such a big financial commitment.

INTAJ hired business consultants to complete a market study and extensive research to identify new clients for the bakery business. They also supported Nat Bio to learn how to identify new clients, approach them and get new deals. The resulting increase in demand for their products gave the business the confidence it needed to invest in an advance to the farmers. The consultants also worked on the costing, profit and loss, and pricing for the products produced by NAT Bio. This allowed the business to reduce its costs and to increase its revenue, allowing more investment in agriculture. Nat Bio can now guarantee the land prior to the plantation, and eventually buys the whole crop at the end of the season.

As a result, the amount of land Nat Bio is using to grow the organic grain this year is twenty times more than the previous year, with over 100,000m² of land in 2017 compared to 5,000m² of land in 2016. In addition, farmers in Dayr Al Ahmar, Bekaa, inspired by the success of the farmers working with Nat Bio and the potential to link to a certifying body that would provide access to markets inside and outside Lebanon, decided to form one of the first organic agriculture cooperatives in Lebanon. The cooperative currently has 11 members, and is dedicated to supporting farmers in growing not only wheat, but also other fully organic crops such as grains, tomato, cucumber, potato and other, providing farmers from this area with an alternative to tobacco and marijuana cultivation.