



الكتلة الوطنية
NATIONAL BLOC

“LEBANON’S FORMAL PRIVATE SECTOR: the BITTER reality of 2020”

UN-ESCWA, 2021

A Summary

The United Nations – Economic and Social Commission for Western Asia (UN-ESCWA) recently published a policy brief entitled “LEBANON’S FORMAL PRIVATE SECTOR: the BITTER reality of 2020” (2021) in which it tackles the challenges faced by the formal private sector firms and recommends policy actions to mitigate them.

Although measures related to the private informal sector are not stated, the latter is tackled indirectly. For instance, better conditions in addition to tax incentives and increased access to financing in the formal private sector would encourage the firms operating informally to be part of the formal private sector.

The main challenges presented in the policy brief are the following:

- 1- The decrease in the private sector’s activities caused a significant drop in GDP as well as in tax revenues. As a matter of fact, from January till September 2020, the state has lost approximately 17% in tax revenues from the private sector.
- 2- Due to the pandemic, private sector’s sales were reduced by 45% at the end of 2020. The report clearly states that this drop is independent of whether the firms were impacted by the Beirut Port explosion.
- 3- Employment in the private sector decreased by 23% in average for all sectors, the highest decrease (-40%) being recorded in the construction sector. The decrease in employment primarily affected full-time employees.
- 4- Micro and small enterprises’ demand for full-time employees decreased, which primarily affected the vulnerable and poor population seeking employment. Full-time employment constitutes approximately 91% of Micro and small companies.
- 5- When comparing exporting and non-exporting firms, the latter have lost double the employment compared to the former.



- 6- The depreciation of the LBP has affected almost all the firms operating in the private sector. In fact, most of them have more than 50% of their debt denominated in USD.

The main recommendations stipulated in the policy brief are the following:

- 1- Supporting formal private sector firms through tax deferrals¹, tax relief, concessional loans², and credit guarantees³.
- 2- Establishing a national rescue plan for MSMEs to limit the unemployment caused the pandemic.
- 3- Developing crisis management and contingency plans, especially for small and medium enterprises (SMEs), allowing them to modify their businesses and production models, even in times of stability.
- 4- Enact employment protection schemes to reduce the impact of the pandemic and the Beirut explosion on employment through increased international and regional financing.
- 5- Encouraging exporting firms, especially the ones specialized in manufacturing and services through eased access to financing, free trade agreements, free trade zones, and reduced red tape.
- 6- Implement major reforms in the Lebanese business environment and investment climate, while prioritizing additional political stability, less corruption, and more accountability.

¹ Tax deferral refers to instances where a taxpayer can delay paying taxes to some future period.

² These are loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these.

³ A credit guarantee scheme provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to SMEs in case of default, typically in return for a fee.



- 7- Facilitate upskilling and reskilling programmes for those who lost their jobs, especially women and youth through online trainings.

In a nutshell, the policy brief presented the main challenges the formal private sector firms faced due to the pandemic, the Beirut Port explosion, and the economic situation. The reforms it stipulates are mainly aimed at encouraging employment within the formal private sector firms, supporting them financially, and enhancing the business environment in which they operate.