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Social Enterprise Legal Framework Proposal

A Lebanese Study

By

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Social Enterprise Legal Framework Proposal

A Lebanese study

Firas Zayter

ABSTRACT

This thesis aims at offering a comprehensive in-depth study on the practicality of introducing a Social Enterprise legal framework in the current Lebanese socio-political status and try answering the following two questions:

What is the favorable structure of a legal framework that contributes to the thriving of social Entrepreneurship/enterprises?
And the governance of social enterprises?

The research leads to specific understandings and outcomes of specific legal provisions that could be handed over to civil society and practitioners in Lebanon; these legal provisions lead to a conclusion that, if developed correctly, the proposal of a legal framework for SE would have a clear pathway to realization.

Keywords: Social Entrepreneurship, Social Enterprise, Legal Framework, Legal Forms, Social Impact, Impact measurement, Solidarity Economy, Impact investment, Impact funder.
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Chapter One

Social Entrepreneurship: A global Phenomenon

1.1 Introduction:

Many factors have contributed into turning social entrepreneurship into a global phenomenon such as, higher life expectancy leading to increased productive lifetime of citizens, improved education levels, as well as advanced technology and global communications networks.

Table 1: Factors affecting the development of social entrepreneurship

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<td>improved social mobility</td>
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Since Social entrepreneurship (SE) became a worldwide phenomenon, SE in Europe has received increasing support by the governments and the EU policy with the UK, for instance, establishing the “Social Enterprise Unit within the Small Business Service of the Department of Trade and Industry (Department of Trade and Industry-DTI 2002)”. Cooperatives as a social model were mostly contested in the former communist Eastern Europe countries due to the cultural and political legacy of corrupt centralized control. Instead, the focus shifted to establishing a mix of economic and social value into commercial models.

In the Americas, the USA as an example, “venture” philanthropy and emerging foundation agenda have boosted SE activities, (Economist, 2004). While in Latin America, co-operatives models are the most common form of SEs, centering around “civil society rather than on the public and private sectors” (Davis a., 2003),
In Asia’s developing economies, SEs activity flourishes in the interface between Civil Society and the state. In several other countries, SE activities are rooted in other substantial cultural factors. In Bangladesh, for instance, the massive success of Grameen Bank micro-credit network is largely due to the recognition of the crucial role of women in directing loans. In India, social entrepreneurship has broader scope than economic entrepreneurship due to the needs of such enterprises in such socio-economic contexts. Karuna Trust is an example of a success story in India that delivers preventive, promotive, curative and rehabilitative health care services to remote rural/tribal population.

It is worth bearing in mind that religion plays a vital role in SE activities. An example of that, the Mondragon co-operative, the biggest single employer in the Basque Region that overcame the Franco-led regime to its religion-based network in the villages where it functioned. Historically, such religion driven activities were the result of many drivers that we can identify in today’s world as well: personal ethical or religious incentives, personal selflessness, social or political atmosphere, specialized interests, factors linked to culture and unity growth (Nicholls, 2014).

**Figure 1: International Positioning of social entrepreneurship**

Indeed, social entrepreneurship constitutes a term covering an extended range of dynamic and innovative global procedures in the social and environmental domains. Some consider it a solution to the “Social market failures (Drayton, 2002)”, while others a proof of the authority that the “business” models are imposing across different areas in our life (Dart, 2004). In all cases, SE is a driver of momentous social transformation that is turning into an independent field for researchers and practitioners, and no longer restricted under “charity governance” or “not-for-profit management”.

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2
Chapter Two

The role of social entrepreneurship in backing sustainable development goals (SDGs)

2.1 Social entrepreneurship and sustainable development goals (SDGs)

Before discussing the support offered by social entrepreneurship to the SDGs, one should note first that the term “social” is debatable and varies greatly based on the personal and cultural backgrounds. In fact, how can we identify which social needs should be prioritized? In the absence of a major objective, the task becomes impossible, as for instance, it would be difficult to know if helping homeless individuals in Paris would create the same social value as providing food to underprivileged children in Kabul. If limitations around the SE scope are not clearly defined, it will be difficult to describe the specific features that distinguishes it from mainstream or entrepreneurial business. This vagueness could be trespassed by tackling SE via the outlook of the globally agreed-upon objectives of SDGs (Seelos & Mair, 2004).

In that respect, the former SE definitions can be extended to the creation of new and integrated delivery models of products and services that directly serve the social needs underlying sustainable development goals like the “Millennium Development Goals” (MDGs). SE generates enormous value when offering vital goods and services such as medicines or food. A striking example of this is the Institute of OneWorldHealth, an organization that fills the gaps caused by governmental, temporary and narrowly focused healthcare efforts.

SE initiatives frequently work on the equitable distribution of limited resources, Grameen Bank as an example. Furthermore, SEs seek to protect the well being of future generations by founding and creating innovative practices that do no environmental harm. For instance, Egypt’s Sekem has altered the cotton production models in the country to avoid the excessive use of pesticides.

In addition to various initiatives in advanced countries, SE clusters are also established in the Latino part of America (Brazil, Ecuador), also in Southeast Asia, Bangladesh and India, where the SE initiatives play a crucial role in the communities, offering essential infrastructures and
services required by the public. For example, BRAC—an international development organization based in Bangladesh—uses as an all-inclusive concept in order to reduce poverty and empower the poor, by operating companies and institutions in a wide range of activities such as banking, education, poultry farming, land and housing.

SE should indeed reach a significant number of initiatives across the world in order to make a substantial contribution to SE. The extent of SE is eventually dependent on the number of social entrepreneurs who are characterized by “entrepreneurial talent”. The founder of Ashoka, a global SE foundation, Bill Drayton notes that SE is the result of specific and rare traits that exceed selfless incentives and seek to transform the society. Experimental data are still missing to evaluate these personal traits. In fact, social entrepreneurs do not identify themselves as one unless when receiving awards or being depicted the likes of Ashoka and the Schwab Foundation.

SEs may back up a great variety of motives, including the goal to generate financial profit similarly to both “Sekem and the Grameen Bank”. Social Entrepreneurship is a model that enables individuals, institutions, NGOs, and companies to balance between the wish to socially contribute and the need to achieve an economic gain (Seelos & Mair, 2004).

2.2 The Lebanese Crisis

Over the past few years, Lebanon has been subject to subsequent crises that exacerbated in the last 3 years into a major economic, political, environmental and social crisis which was aggravated by the Covid19 pandemic and has put the country into deep socio-economic mayhem.

The Lebanese decision makers attempted to mitigate the Socio-economic and environmental challenges through policy initiatives: to include a capital investment program, the Lebanon Economic Vision, the SME Strategy, and the SDGs strategy with the aim of creating jobs, boosting the economy and maintaining social stability. However, these attempts have been foible at best resulting in the fact that social challenges and inequalities are still on the rise over the Lebanese geography and particularly in the rural and marginalized areas.

And as a result of years of maladministration and implementation of the above initiatives, combined with continuous political struggles and the absence of effective policies, coupled with corruption on many levels, local currency devaluation and banking system semi-collapse, even greater social challenges and inequalities have anchored, with skyrocketing
unemployment ratios, a decline of the middle class under the poverty line, and the diminishing of living standards across the country.

Facing all the above socio-economic challenges, social entrepreneurship has emerged as a combination of business and social movement models to approach these increasing societal challenges in an innovative way while delivering a sustainable business model that is driven by a social value.
Chapter Three

Defining Social Entrepreneurship

3.1 Definition of SE

Social Entrepreneurship involves “business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.” It is becoming an international model that has been adopted by many nations around the world to address social, economic and environmental challenges and to create jobs particularly for the most marginalized groups (European Commission. 2014. Conference: Social Entrepreneurs. The British Council. 2015. The Scale of Social Enterprises. Social Enterprise UK. 2015. think Global Trade Social. GSG. 2014. Impact Investment Report.)

It is an advanced strategy to support and enhance governmental efforts to resolve such challenges and has emerged as a need to support governmental efforts with pioneering and innovative solutions for environmental and socio-economic challenges.

SE has therefore attracted growing attention and consideration from entrepreneurship scholars in recent years mainly because it encompasses the “recognition, evaluation, and exploitation of opportunities that result in social value — the basic and long-standing needs of society — as opposed to personal or shareholder wealth” (Austin, Stevenson, & Wei-Skillern, 2006): Instead of focusing on the profit aspect, it redirects its activities to the delivery of goods and services that meet the essential and exacerbated needs of the less privileged society members such as clean water, balanced food, basic education, medical services and safe shelter.

Hence social entrepreneurship has been recognized in various fields and which would require a certain consensus to help the SE research develop more. The creation of a concrete definition would definitely help minimize the vagueness around the concept which constitutes an obstacle facing research.
3.1.1 Commercial VS Social SE:

Social enterprises can be for-profit, philanthropy and hybrid organizations, but the important and common part is that they should all have a social mission that uses a business model to achieve such mission.

In order to comprehend social entrepreneurship, it is worth differentiating between commercial and social entrepreneurship. The first represents the identification, evaluation and exploitation of opportunities that generate profit while the latter focuses on those that create social value (Austin, Stevenson, & Wei-Skillern, 2006)

More properly, “Austin et al. (2006, p. 2)” define social entrepreneurship as “innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors” This view of SE that highlights the role of innovative approach to address a social problem is in line with Schumpeterian take on entrepreneurship. Social entrepreneurs, then, are seen as the leaders on social innovation (Casson, 2005). Dees (1998, p. 4) also stresses on innovation, adaptation and learning as the key factors if adopted by social entrepreneurs will turn them as leading change agents socially.

Austin et al’s definition also suggests that social entrepreneurship can be led by individuals, organizations (all types), or governments and therefore a social entrepreneur cannot be confined in one type.

Commercial entrepreneurship differs from social entrepreneurship in at least three basic criteria:

**Firstly, in their general mission.** The main driver for Commercial entrepreneurs is private gains while SEs’ ultimate goal is the social value creation, but it is not mutually exclusive. As a matter of fact, commercial entrepreneurs might create social value while pursuing their activities and social entrepreneurs may achieve personal gains while creating social value (Emerson & Twersky, 1996).

**Secondly, in their performance measurement.** Commercial enterprises are evaluated according to their financial performance, according to standardized metrics of profitability rate, return on assets and equity, sales growth…while social entrepreneurs’ performance metrics are less standardized and more adapted to each organization. Yet, the task remains challenging and establishing mechanisms to do so is a must to legitimize “social entrepreneurship as an area of
academic inquiry (Mair & Martí, 2006)”. While there still are gaps on how social enterprises can be evaluated, newly emerging metrics are in place to “quantify value in the social sector (Young, 2006)”.

**Thirdly, in terms of resource mobilization.** When it comes to financial resources, commercial entrepreneurs can attract investors promising a rate of return. They can also hire human resources in return for wages, benefits and other financial incentives. The issue becomes more complicated with social entrepreneurs. Mobilizing resources that are mainly interested in investing in the creation of social value requires challenging work. Luckily, venture capital and impact investment funding, a new trend in the capital investment world is emerging and could transform Social Entrepreneurship. Recruiting employees when they cannot be paying the market rate is difficult, therefore many SEs depend on apprenticeship or volunteering individuals who are more concerned in creating social impact than personal gains.

### 3.1.2 Hybrid SE:

In spite of the variances between SE and commercial entrepreneurship, some argue that organizations can pursue a combination of both hybrids (Davis, 2006). Yet, others regard the pursuit of both as marketing technique to boost sales, financial gain and shareholder equity, noting that only initiatives that accept a substantial decline in financial gain because of the social goals can be considered SEs (Peredo & McLean, 2006).

### 3.1.3 Definition of SE Controversy:

The definition of SE is still causing controversy. This debate, however, is not new. In the general entrepreneurship field, this tension also exists. “As Venkataraman (1997, p. 120)” stated, “‘there are fundamentally different conceptions and interpretations of the concept of entrepreneur and the entrepreneurial role, consensus on a definition of the field in terms of the entrepreneur is perhaps an impossibility’”.

### 3.2 Government intervention in SE definition

SEs need laws to govern their establishment, daily management, tax systems and dissolution. Given that there is an intersection between the for-money and philanthropy sectors, decision makers have pushed in some countries for tailored legal frameworks. Yet, the question that
remains is: should the government define SE or leave it to academics? Should it create specific legal structures or leave it to the SEs who know their needs the best to design and tailor their own Legal framework?

In fact, various perspectives exist across the world according to the world bank a country can:

- Leave SE undefined and therefore allow SEs to adapt to already existing SE legal structures (e.g., Malaysia).
- Also leave SE undefined, but establish a set that contains a diversity of Legal forms that allows SEs to choose from (e.g., United States).
- Approve a “working definition” of SE. In this case, the governing body, usually is part of the executive branch, adopts a definition that is in harmony of the country’s vision of supporting and enhancing SE. It totally depends on self-identification of being an SE, with no need for any formal certification process. (e.g., the United Kingdom). Working definitions are not limited to what a governing body or executive branch adopts, it can also extends to what a think tank or an academic institution propose.
- Adopt a “legal definition” for SE and combine it with a legal framework that could be used for the type of activities that are mainly targeted by SEs. The legal definition is when a country adopts new Legal form for Social Entrepreneurship (Social Enterprise) through it’s legislative branch Or Amending existing Legal Models to integrate Social entrepreneurship OR design an Adhoc unique qualification model for Social Entrepreneurship.

It can describe the general nature of an SE or it can be detailed, depicting the specificities of the needed features for an entity to be considered a social enterprise. Consequently, if an entity qualifies as social enterprise under a defined legal framework, it would enjoy some benefits described in the Law. Such privileges could be related to social procurement, preferential procurement with governmental authorities, or tax deductibles. Both Italy and South Korea adopted this approach (World Bank Group, 2016).

In other occasions, SE cannot be defined by the executive or legislative branches. This would create a void that is usually filled by SE enthusiasts, commentators, academics and practitioners who would take the lead and fill this void by presenting their own definition of SE. The United States and Malaysia adopted this approach.
As stated above, the U.K. government adopted the working definition below since 2002:

**Box 1: U.K. government: Definition of Social Enterprise**

Between 2002 and 2012, the government in the UK defined SE as “business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners”. “The Department for Business, Innovation & Skills (DBIS)” adopts four principles to SE. A prospect candidate enterprise should:

1 - consider itself a social enterprise
2 - not pay more than 50 per cent of profit or surplus to owners or shareholders
3 - not have less than 75 per cent of turnover from trading goods and services
4 - think themselves ‘a very good fit’, it added the statement: ‘a business with primarily social or environmental objectives, whose surpluses were principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners.’”

According to DBIS, the main features of the U.K. “working definition” of an SE are:

- Any business exceeding 75% turnover that is generated from its participation in an economic activity.
- Principally have social and/or environmental goals.
- A cap to profit distribution to shareholders (should not exceed 50% of realized net profit)

The use a specific legal form for an entity is not a requirement to be considered an SE.

The working definition components are generally accepted across the UK. Some organizations such as “Social Enterprise United Kingdom (SEUK)”, and the international SE accreditation body further developed the working definition as seen below (World Bank Group, 2016).

**Table 2: The U.K: Definition of Social Enterprise**
3.3 Lebanon and SE definition:

Lebanon has no contextualized definition of SE and therefore criteria and requirements that forbid the abuse of the system by greedy commercial businesses are lacking. Instead, there are many studies and reports that tried to define the term.

According to the “Social Entrepreneurship Momentum” Report from Beyond Reform and Development (2016), stakeholders perceive social entrepreneurship in Lebanon through three lenses:

a. **The Socio-Cultural Lens**: linked to the entrepreneurial “culture” within the society in Lebanon and the dependence on personal initiative to tackle socio-economic problems.

b. **The Individual Lens**: refers to the social entrepreneurs’ values and personal traits, to include: diversity appreciation, community-centricity, inclusiveness of all, dignity for all, passion about a social cause, commitment to the cause, innovation in the approach, and responsiveness to social needs.

c. **The Legal Lens**: refers to the existence of this practice within the civil society and among initiatives, could be NGOs or other forms, that enjoyed some financial sustainability. As such, the report defines SE as follows: “Social entrepreneurship is a choice and a strategy to transform social problems into opportunities for social innovation, economic development and sustainable change.”

Furthermore, as per the report, an SE can be depicted as follows:

a. **Outcome Dimension**: how innovative and distinct it is from other initiatives
b. **Governance Dimension:** when it comes to internal participation and financial sustainability

c. **Stakeholder Participation Dimension:** at the internal and external levels

In addition, Beyond Reform & Development (2016) noted that Social Entrepreneurship refers to entrepreneurial initiatives with the following goals:

i. Tackling a social problem with an entrepreneurial solution and job creation.

ii. Income generating activities focused on marginalized and remote areas.

iii. Social cohesion promotion between communities and sectarian groups.

iv. Environment and natural resources protection initiatives.

v. Redistribution of profit generated from income generating activities to marginalized citizens.

vi. Supplying quality infrastructures and needed services to citizens in collaboration with government.

vii. Promoting SE and social awareness in Lebanon

Alfanar, the well-known regional venture philanthropy organization, defines SE as “an organization that applies private sector business models to advancing social goals; their fundamental goal is to contribute to society first, and make money second.” Alfanar proposes the interesting matrix below which they use to further define a social enterprise. They quantify the extent to which an organization can be seen as a social enterprise according to four categories: (Jamali, D., n.d)

**Social Impact:** a high score would be reported if it is clear and included in the enterprise’s articles of association.

**Beneficiaries:** a high score would be reported if the enterprise employs individuals from disadvantage communities, offer them goods and/or services without any religious or political discrimination, and provides solutions that they cannot get otherwise

**Scalability:** a high score would be reported if the organization’s social impact is scalable;
Governance & Sustainability: a high score would be reported if the organization includes its main stakeholders in the decision-making procedure, if the enterprise is able to break-even or to achieve a profit, if the solutions offered to beneficiaries have long-term positive impact, if the organization controls and assesses the social impact, and if the organization in itself is environmentally aware.

Figure 1: Creation of Social value

Lebanon’s Central Bank, through its Financial Inclusion Strategy launched in (2017), noted that social entrepreneurship is considered as an instrument to promote social, economic and financial well-being of the citizens and achieving sustainable economic development.

The report focuses on social wealth as an important factor in achieving financial inclusion and on the necessity of supporting SE and promoting impact investing as two tools to attain social wealth.

Interestingly, BDL defines SE, social enterprise and social entrepreneur distinctly.

As such, it defined social entrepreneurship as “the process undertaken to discover, define, and capitalize on opportunities in order to enhance social wealth by establishing new social-value
creating ventures, or managing existing organizations in the philanthropy, business or government sectors in an innovative manner allowing to meet social needs or to stimulate social change.” The Social Entrepreneur is considered “an entrepreneur with a social mission” and a Social Enterprise is a “venture that generates an income in the pursuit of social outcomes.” (Jamali, D., n.d)
Chapter Four

The structure of social enterprises

A variety of forms can be used for entities with a social value role. These structures are normally described in the law and contain for-profit legal forms (such as companies and LLCs) and philanthropic forms (like charities). These forms can be either incorporated, with a separate legal entity from the owners, or unincorporated, where the entity and the owners are legally one.

4.1 Features of the different legal structures

The table below highlights the distinctive components of the most prevailing Legal Forms used for SE (World Bank Group, 2016).

Table 3: Distinctive features of Social Enterprises common legal forms

<table>
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<tr>
<th>Entity</th>
<th>Typical Features</th>
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<tr>
<td>Company (known as corporation in the United States)</td>
<td>• Provides a separate legal personality. The company has standing to sue and be sued and is liable for the actions and debts of the business (rather than its shareholders).&lt;br&gt;• Can raise capital through the sale of ownership shares (equity) and loans (debt finance).&lt;br&gt;• Governed by a board of directors that owes its duties to shareholders and delegates day-to-day management to executives.</td>
</tr>
<tr>
<td>Limited Liability Company/Limited Liability Partnership (LLC/LLP)</td>
<td>• A hybrid structure, which combines some of the features of a company (limited liability) with some of the features of a partnership (flexibility in governance, taxed at the level of each member).&lt;br&gt;• Issues such as management duties, voting and transaction approvals and aim of the entity are contained in the articles of incorporation and operating agreement, drafted by the managers.&lt;br&gt;• Members are not subject to the same fiduciary duties as directors of companies.</td>
</tr>
<tr>
<td>Non-Governmental Organization (NGO)</td>
<td>• Non-profit, voluntary citizens' group that is driven by people with a common public good interest.&lt;br&gt;• The legal form is diverse and depends upon the country's laws and practices.&lt;br&gt;• Can include trusts, charities, non-profit associations, independent cooperatives and foundations.&lt;br&gt;• Formed or registered under specific nonprofit laws.&lt;br&gt;• Benefits from tax exemptions.</td>
</tr>
</tbody>
</table>

A social enterprise can supposedly choose any of the available Legal Forms made available by Law, such law would provide enough flexibility in the LF enabling the SE to amend it to meet its social and environmental goals in the country of operations.
As long as the SE fulfills the components and features required and accepted in its country of operations to be classified as an SE, the chosen Legal Form becomes irrelevant to the status of the SE.

Many factors would push the enterprises to select a form or another, among which financing sources and tax considerations.

Box 2: Key considerations for choice of legal form

- **Sources of financing.** Some forms are more favorable to equity investment (shares), whereas others are more favorable to debt (loans), private donations from foundations, or public grants.
- **Tax.** Some forms will enable the social enterprise to be tax exempt or provide tax breaks for investors. Some forms are taxable as separate entities and some are not.
- **Governance and accountability.** Some forms enable more inclusive decision-making, imposing more accountability to the social or environmental mission on those in charge.
- **Liability.** Incorporated forms (where the social enterprise has its own legal personality) provide limited liability to the founders while unincorporated forms do not.
- **Partnerships.** Some forms (e.g., NGO) allow social enterprises to more easily attract donor funding and other incentives. In some countries, companies have advantages when competing for government contracts.
- **Other.** Some forms note the extent to which profits will be distributed, to which the social enterprise wishes to commit to transparency in its mission, whether it will have employees, and its size and location also have influence.

### 4.2 Legal forms and gaps in practice

It is worth noting that traditional legal forms suffered from gaps in practice. As a matter of fact, those choosing a company structure face limitation in case they decide to prioritize their social mission rather than profitability. They would also find it challenging to receive government support and socially responsible investment if they are clearly considered a social enterprise. On the other hand, those selecting a charity form can be limited in their entrepreneurial activities. Facing this dilemma, some countries created new legal forms that can be important for social enterprise, without abolishing traditional legal forms but rather adding the social enterprise option. Legal forms, however, remain different in each country and mostly depend on the SE definition in this particular country. For example, the new legal form called the “benefit corporation” as well as “B corporations” are often associated with SEs in the US yet are not seen so in the UK as they don’t require an asset lock or redistribution of profits.
Even though the UK parliament has not formally defined SE, it introduced, in 2004, a comprehensive legal form for it. Furthermore, the parliament in the UK approved a definition for SE in the healthcare context put forward by the Ministry of Health. As such, the UK parliament provided for the establishment of “local Healthwatch bodies” characterized as SEs in each locality and region in the UK that provide social services, as such: (Annex 1)

- guarantees that at least 50% of net profits are re-invested in the activities of that body.
- undertakes its activities are to service the community in England.
- includes provisions that oblige it to transfer its assets in the case of liquidation or being dissolved to another SE.

4.2.1 The United Kingdom’s Community Interest Companies (CIC)

Community Interest Companies (CIC) is a legal form that was precisely advanced for supporting the development of SE (the only case in the British legal system)

The main driver behind creating a new LF for SEs in UK was the fear of transforming the structure by the shareholders into a for-profit institution when it becomes profitable. Therefore, and in order to ensure that the owners do not reap the benefits from assets originally targeting social purposes, locking up the entity’s assets is deemed necessary.

On the other hand, liability for directors was not a matter of concern in the UK where companies allow their managers to promote the company’ success in the interest of all shareholders while also ensuring that the stakeholders’, such as staff, localities and the environment, interests are also taken into consideration (World Bank Group, 2016).

The UK parliament has endorsed this responsibility by requesting from all listed companies to show in their annual report how the stakeholders’ interests were considered. As such, the CIC was created by the UK parliament as part of the UK Companies’ Act as recommended by the Government’s Social Enterprise Unit. The UK DBIS notes that the CIC “is a form of company specifically created for the social enterprise sector.” CIC is a limited company that should serve the public interest and therefore is subject to certain restrictions to guarantee that mandate.
The main characteristics of CIC are:

- The Limited company branding should be clear and non-confusing
- Undertakes that all business activities should serve the community’s benefit
- The directors have fiduciary duties to the community and investors alike.
- Assets are permanently locked to protect the community rights and benefits
- CIC Regulator has and oversight on the company to ensure that the CIC brand retain confidence
- Transparency in delivering the social impact to the community.

“Department for Business, Innovation & Skills, Office of the Regulator of Community Interest Companies: Information and guidance notes (May 2016)”

Prior to the adoption of the CIC, most firms pursued their activities as “businesses limited by guarantee with charitable status”. This structure permits those SEs to adopt a hybrid business model given that there is an assets-lock under the charitable status, but are allowed to trade as a company. CICs were rapidly adopted in the UK. The original governmental estimation was 200 CICs yearly, yet the number cumulatively reached 10,000 over 10 years by November 2014 and 268 new members in April 2016 alone.

4.2 Other Legal Forms

Despite the popularity of CICs, a range of other legal forms in the UK are still used for SEs. SEUK, in a recent survey stated that 60% of SEs in the UK are structured as companies, while only 20% are CICs and the rest use different legal forms, such as “co-operatives, charitable incorporated organizations or community benefit societies”. The SE activities is the main driver behind the choice of LF, in addition to stream of funding and the hierarchy of ownership and partnerships (World Bank Group, 2016).

For instance:

- “Charitable Incorporated Organization” (CIO) is registered as an incorporated form of charity under the Charity Commission, not as a company. In this form, the CIO form, trustees enjoy a high degree of control and also have limited liability as well.
• “Industrial and Provident Society” (IPS) is of two forms: “Co-operative Societies” and “Community Benefit Societies” or ‘BenComms’ whose purpose must primarily be “for the benefit of the community”.

• Limited Liability Partnership is pretty similar to a company with a distinctive legal personality. The LLP has a limited liability and is transparent for tax purposes: non-corporate partners register for self-assessment and pay income tax on their share of the profits, while profits shared by corporate partners will be liable to pay corporation tax on this income.

In brief, and according to the report entitled “A map of SEs and their eco-systems in Europe, Country Report: United Kingdom” (European Commission, 2014), SEs in the UK can adopt any of the following LF listed below:

- The CIC LF that became effective as of 2012 as explained previously. This form is the closest to what might be considered a legal definition in the UK. A firm which does fit in CIC criteria can still be considered as an SE given that it fits the government’s criteria.

- The legal form meeting the UK Government operational definition that includes all features and criteria of an SE.

- “The sector representative definition”. The largest representative body for SEs in the UK is Social Enterprise UK that provides its own definition and guidelines on the essential defining features of SE. A business wishing to register as a social enterprise in the UK can simply refer to Social Enterprise UK which certifies that it meets the criteria referenced earlier.

- “The label/certification definition”. The Social Enterprise Mark Company is a certification authority that runs a certification scheme and grade for SEs in the UK with specific sets and criteria that the SEs need to meet to become a social enterprise Mark holder.
4.3 Case Study: Italy

SEs primarily emerged in Italy in the 1980s in response to the citizen’s new emerging social needs and to fill the gaps of public institutions in the delivery of the needed social services (Borzaga & Ianes, 2006). The first voluntary civic organizations recognized that the variety of services given on a private-based initiative, philanthropic basis should be merged and empowered (Ianes, 2016). This course of merger and extension resulted in the adoption of the cooperative as a first form of SE (Borzaga, 2009). Prior to that, associations and foundations were not permitted to undertake major economic activity, as per the Italian legal system. Cooperatives’ formation was facilitated then by two major factors: the Italian constitution explicitly identified the social function of the cooperation and second the capital required to establish a cooperative was relatively low (Borzaga & Santuari, 2000). As a result, the first established “social solidarity cooperatives” were carried as an extended application of the mutuality principle, undertaking various activities such as work integration and service provision, drug rehabilitation communities, group homes for children, reception facilities for the homeless, and home care services for the elderly, developing peculiar organizational strategies and establishing consortia at the national level (Borzaga & al., 2017).

Shortly, the movement started to put pressure on the national governing bodies in order to obtain legal recognition. Subsequently, with Law No.381/1991, a new legal entity was introduced: the ‘social cooperative’, the objective of which was to establish an organization capable of economic effectiveness and innovation with the values of empathy and solidarity imbedded at its heart, typical of the philanthropy sector (Travaglini, 2009). The newly enacted law allowed it to operate in two sectors: socio-health management and educational services (type A) and the development of productive activities that employ disadvantaged individuals (type B).

Furthermore, it acknowledges the status of ONLUS (Organizzazione Non Lucrativa di Utilità Sociale) for all social cooperatives, ensuring crucial tax benefits. This law does not forbid social cooperatives from distributing profits; yet distributable profits cannot surpass 80% of total profits. Beneficiaries of social cooperatives are principally community members, especially the most disadvantaged ones, while the social base can comprise various types of stakeholders. These can comprise members who work in the cooperative in return for a remuneration (operators, managers); members who benefit from the cooperatives’ services
In 2005, the Italian Parliament approved Law No.118 that identified and regulated new forms of SEs (Fici & Galletti, 2007). It did not establish any new corporate forms but rather introduced a new legal requirement that can be adopted by any institution that fits into precise features, defining the SE as a philanthropy organization that produces goods and services aimed at reaching purposes of general interest.

The new law did not only extend the variety of enterprises that can be considered as SEs but also the spectrum of goods and services that can be offered by these organizations such as social and health assistance activities, education, social tourism, scientific research, and improvement of cultural heritage.

Consequently, any cooperative, foundation, association, or limited company can be qualified as an SE, with the constraint of non-distributing profits. This legislation obviously constituted a turning point in the field of SEs in Italy since it facilitated the creation of SEs without necessarily adopting the social cooperative form (Borzaga & al., 2017).

As of 2014, the Italian government launched the design of a reform process for the philanthropy sector and SE. The main aspect of the reform was the identification of the fact that SE should have a social aim, present a public balance sheet, carry out activities that have an economic-entrepreneurial nature and by identifying the philanthropy sector as an economic subject.

The reform relies on three macro-objectives:

Firstly, by forming a new participatory welfare system, based on participatory governance which also develops the provision of welfare service. Secondly, benefiting from the growth and employment potential of the social economy. Thirdly, by introducing reward mechanisms to detect the donative or pro-social activities of citizens and enterprises (Terzo & Nalli, 2019).

These alterations have permitted the launch of a course of economic and entrepreneurial progress of philanthropy organizations turning into ‘real SEs’ or what is known as NGOs in transition. In this context, a set of provisions has been introduced to endorse the economic
recognition of organized civil society, attempting to manage and reinforce its efforts (Santuari, 2017).

First, the delegating Law No.106/2016 has presented considerable changes in the legal framework concerning philanthropy organizations, stating that a philanthropy organization can undertake economic business activities as long as the objectives of these activities target the general interest. Second, Legislative Decree No.112/2017 (amended by Legislative Decree n. 95/2018) identifies an SE any private organization that exercises in a stable and major way a business of general interest with philanthropy-making and for civic, solidarity and social purposes, adopts responsible and clear management techniques and supports the widest involvement of all stakeholders. In comparison with the provisions of previous SE legislation, the general interest activities that can be carried out have augmented, including micro-credit, social housing, fair trade, and social agriculture. The so-defined SE is included in the definition of the philanthropy sector, and the qualification of SE is stretched by right to social cooperatives and their consortia, but not to the banking sector. In addition, on the taxation level, it is agreed that those who decide to invest in SE may benefit from a 30% deduction of the sum invested in the share capital of one or more companies, including cooperatives. It is also possible, although in a limited form, to distribute profits, with a tax exemption for profits fully reinvested in the activity of an SE (Terzo & Nalli, 2019).

Considering the overall legislative framework and the criteria established by EMES (1999), Borzaga et al. (2017, pp. 10-13) have recognized three types of organizations that, in addition to social cooperatives, can be considered SE.

These include:

I. **Associations:** In the Italian legal system, associations are organizations formed by a group of people with the aim of carrying out a philanthropy-making activity. However, based on Law No.266/1991, which controls voluntary organizations, the ability to obtain income from marginal commercial and productive activities is foreseen, without prejudice to the non-distribution of profits. Additionally, over the years, many law have been enacted to detect specific types of organizations, gradually allowing associations to carry out income-generating activities (Terzo & Nalli, 2019).
II. **Foundations**: They are private and philanthropy organizations, characterized by the availability of a destined property for a socially appropriate goal. They may be classified as grant-making foundations and operating foundations. Operating foundations can directly produce goods and services of social utility, and usually operate in the areas of health care, social assistance, art, and culture. Religious institutions often assume the legal form of foundations, generally operating in the fields of education and health. The fund can consist of resources deriving from a company (corporate foundations) or from a specific donor (independent donations) (Terzo & Nalli, 2019).

III. **Limited companies**: They still represent a minor part of Italian SE, as the law allowed using this form in 2006. These companies can pursue activities in university and post-graduate education, extra-curricular training, social and healthcare services, social tourism, environmental and ecosystem protection, promotion of cultural heritage, education and training, research and provision of cultural services (Terzo & Nalli, 2019).

Based on the above, it is clear that SE in Italy constitutes a principally complex and heterogeneous phenomenon, based on different organizational models with different characteristics. Nevertheless, their common feature is that they represent “collective enterprises launched and operated by people and for people”. (Borzaga & al., 2017, p. 26).

One of the SE ecosystem pillars in Italy is the social cooperatives, it is worth noting that the advanced policies and governing mechanisms for the Italian Social cooperatives proved effective and has drawn larger public interest in SE. Such mechanisms, if contextualized and comprehensively replicated in Lebanon, could lead to a better SE ecosystem. Despite the impressive record of the Italian Social cooperatives, the SE ecosystem in Italy is far from being a holistic social economic module. SE is somehow confined in the philanthropy sector, and the qualification of SEs excludes the banking sector and the financial institution which hinders SE access to funding and finance, therefore scaling up and growth becomes a major challenge.
4.3 Italy vs. UK a comparison /Similarities with Lebanon

Firstly, the historical evolution in each country showed that SEs emerged when state expenditure for welfare services is or is seen as unsatisfactory, even if this insufficiency emerged for different reasons in each country. While in Italy the emergence of new needs occurred when the welfare system was still premature, in the UK it took place when state welfare provision was fully developed. Lebanon’s welfare services are almost non-existent.

Secondly, in both cases it has been noticed that the development of SE was nurtured by the existence of a pre-existing tradition of cooperatives and civil society associations, which played a vital role in both countries. Yet, the existence of such a culture led to very different outcomes, depending on differences in governmental policies. For instance, in the UK the privatization and contracting-out process started by the Thatcher government has presented emerging SEs with a wide range of opportunities. These have also been supported by dedicated policies, aimed at fighting exclusion and deprivation while tackling dependency culture. This did not take place in Italy, where the emergence of the first SE was an entirely bottom-up process, and where state recognition only came in 1992, recognizing and giving official legal status to activities that had previously ascended autonomously from civil society. Furthermore, the UK regulation did not impose limitations on any legal form which enabled profit making, whereas in Italy the regulation limited the legal form and operating field. Also, profit distribution was banned until 2017 and constraints regarding it still exist. As a consequence, Italian SEs are not in the same variety of forms an operating sector as in the UK (Terzo & Nalli, 2019).

In Lebanon, the development of cooperatives, the main form of SE, has been linked to the transformation in the country’s capacity, as well as with the development policies targeting agricultural and rural areas. The Lebanese government has widely supported the establishment of cooperatives especially in the Chehab era (early 1960s) with the aim of decreasing rural poverty. However, the civil war negatively impacted this progress as regions were divided into regional political blocks controlled by political parties and local leaders emerging from religiously affiliated communities. The political will and the availability of funding through some donors helped in the reemergence of cooperatives after the civil war era. This top down approach in boosting cooperatives has played a negative role in hindering the development of a nationwide
cooperative movement. Nevertheless, cooperatives acted as agents for social change in many areas, specifically the rural women cooperatives (ILO, 2018).

Thirdly, the provision of social services are different between the two countries. While in Italy, it is mostly financed by public resources, British SEs are more independent, but at the cost entering fierce competition with large for-profit companies. Generally speaking, the focus on productive, large-scale public procurement contracts had conflicting influences for British SE, limiting their scope and potential. This is predominantly true for work integration SE that primarily act as contractors of the public sector in the UK, while in Italy are self-financed by the selling of their products. In Lebanon, the cooperative sector is weak and not well established and grounded. There is definitely a need to exert efforts to support the establishment of an effective and an organized cooperative movement which includes solidarity economy structures of different types. According to the latest survey by Daleel Tadamon (2020), most cooperatives operate in South Governorate in Tyre and Nabatieh, while a smaller percentage operate in Beirut. As per the survey’s sample, 76% of the cooperatives covered by the study are agricultural cooperatives, followed by production cooperatives (12%), fishermen coops (7%), consumer cooperatives (3%), commercial cooperative and artisanal cooperatives (1% each).
Chapter Five

Legal framework in Lebanon

5.1 Forms of registration:

In Lebanon, the law does not recognize “social enterprises”. The four types of legal entities listed below are the current available forms of registration, as per Darwazah Center’s consultation with a legal expert (Feghali & al, 2012):

   a. A philanthropy organization (association/NGO). Enterprises generally are exempted from taxes unless it sells products or services worth more than a LBP 100M ($66,666) (cumulatively over four consecutive quarters);

   b. A for-profit (limited liability or joint stock company) enterprise subjected to the regular taxation laws on enterprises. These two forms are explained in the table below:

   c. A for-profit personal enterprise (or proprietary business) subjected to the regular taxation laws on enterprises; and

   d. A “civil company” (only available for those who pursue a liberal profession e.g. attorneys).

Some social entrepreneurship can also not be registered at all, these are widely found in rural areas and among youth generating leading initiatives to generate income with a business model
built on making social impact (BRD, 2012).

Figure 2: Organizations eligible to be SEs in Lebanon

The “Social Entrepreneurship Ecosystem Mapping in Lebanon” report issued in 2016 which is based on a mapping exercise performed by Digital Opportunity Trust (DOT) in collaboration with UNESCO attempted to depict the legal forms chosen by the 49 SEs identified in Lebanon. The findings showed the below:

Figure 3: Types of legal registration available for social businesses in Lebanon

16% of the social businesses mapped are registered as NGOs. The second most common form is the commercial business registration, be it SAL or SARL, which are private businesses that re-invest portion of their net profit in social impact activities. 16% of the social enterprises didn’t answer the question, accounting for the blank response, while around 10% are not registered.
According to a research study conducted under the SoUK.LB project, conversations and interviews with ecosystem players and SEs, there is consensus that there is no plan for social enterprise registration in Lebanon. There is also a need for some sort of a legal model to reach an all-inclusive definition of a social enterprise and overcome the challenges they face.

Besides formalizing the sector, it is of utmost importance that an ideal legal status is found for SEs as the latter is seen to be directly related and influencing of two core dimensions of any SE: the revenue-generating stream and the governance of the SEs.

The research noted that in the absence of a legal framework for SEs, SEs register as NGO or as a for-profit organization. This leads to two problems. Firstly, they can misuse the NGO label to receive donations and grants while not putting enough effort in developing a sustainable revenue stream. Secondly, entities registered as a for-profit are facing cost challenges as it is being taxed as a regular enterprise. The SAL (limited liability or stock company) form, for example, has a lot of tax implications and is not as flexible for internal governance. Therefore, a dual structure is established whereby an association/NGO and a for-profit arm are set up by the same founders.

Generally, the legal review points out that Europe can be considered the region with the most concrete legal structure for SEs, mainly because the SE concept itself is long rooted in these countries. In Lebanon, the legal structure is far behind those in Europe, especially with the lack of a governmental definition of the term or legislation allowing its registration. The debate remains whether the development of a legal framework in Lebanon is needed. Some think it is premature and that criteria offered by an operational definition would be enough and others believe that a legal framework is of paramount importance.
Chapter Six

Challenges, Reforms and Best Practices

The review of the international literature and research studies shows that many challenges faced by one SE in one region are common across every market. These common challenges include external and internal factors.

The external factors are lack of understanding of the concept of SE, lack of a supportive policy and legislative framework, lack of specialist business development services, difficulties in accessing markets, difficulties in accessing finance, absence of comprehensive tools and platforms for measuring and demonstrating social impact, and general economic environment.

The internal factors to SEs that act as challenges include lack of viable business models, lack of entrepreneurial spirit/commercial insight, lack of marketing expertise, and lack of managerial skills, and advanced competencies essential for growth activity.

6.1 In Lebanon:

In Lebanon, the challenges facing the sector’s growth are similar and can be categorized under financial, legal, resources (HR, national infrastructure, etc.), cultural (including understanding the SE concept, political interference/nepotism) and gender bias (for women entrepreneurs). Precisely, the challenges for social innovation include also issues depicted by Beyond Reform & Development (2016) report:

a. Intellectual property law is still not enforced properly
b. Lebanon lacks the adequate infrastructure for innovation, SEs are burdened with skyrocketing on electricity, water, transportation, storage and supply services
c. The bad internet quality
d. The market size, which is quiet small, topped up by the high competition that affect the sustainability of SEs.
e. The unequal development between cities and remote areas weakens localized and community based innovation.
f. No educational curriculum to promote social innovation and entrepreneurship in schools and universities.
g. The government does not support nor promote SE in any way or form
h. The government does not allocate a budget for research and development.
i. Lack of access to relevant information and data

6.2 Empirical Study

In order to update and triangulate the findings of the Beyond Reform & Development (2016) report, the empirical chosen approach was a mixed-methods data that uses qualitative and quantitative selected data that is sufficient to assess current state of SE oriented enterprises and initiatives in Lebanon.

6.3 The survey

The survey outreached 31 selected stakeholders that have been involved in the promotion and support of SEs in Lebanon. The following data was collected:

6.3.1 Gender and age of the surveyed:

![Gender Pie Chart](image1)

![Age Pie Chart](image2)
6.3.2 Geographical distribution of the surveyed:

In which Muhafaza are you registered/Do you live?
31 responses

6.3.3 Challenges

What are the major challenges, in your opinion, that are faced by businesses in the region?
31 responses

- 12 Financial (38.7%)
- 8 Market Access (25.8%)
- 9 Currency Devaluation (28%)
- 9 Lack of Purchasing Power (28%)
- 19 All of the Above (61.3%)
- 6 Other (19.4%)

61.3 % of the respondents stated that MSMEs & SEs are facing multifaceted challenges on almost all levels with approximately 20% of the respondents highlighting that access to finance and the currency devaluation are currently the most pressing challenges.
19% of the total respondents identified other challenges related to lack of awareness, volatility of the market and diminishing infrastructures as pressing challenges facing the SE ecosystem.

### 6.3.4 Mitigation Measures

What kind of mitigation measures businesses are taking to overcome these challenges?

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing</td>
<td>20 (64.5%)</td>
</tr>
<tr>
<td>Staff Reduction</td>
<td>25 (80.6%)</td>
</tr>
<tr>
<td>Part-Time Staff Recruitment</td>
<td>14 (45.2%)</td>
</tr>
<tr>
<td>Reduced Salaries</td>
<td>22 (71%)</td>
</tr>
<tr>
<td>Other</td>
<td>6 (19.4%)</td>
</tr>
</tbody>
</table>

80% of the respondents stated that staff reduction is the main mitigation measure adopted by MSMEs & SEs to mitigate the pressing crisis. While 71% noted that reducing salaries was also one of the main tools used to mitigate the above-mentioned challenges.
6.3.5 SE in Lebanon

A large majority of the respondents 93.5% believe that SE could have a positive impact on the socio-economic situation in Lebanon.

6.3.6 Can SE help?

The majority of the respondents stated that SE could help improve the Lebanese Socio-Economic situation through addressing socio-economic challenges, creating solidarity within communities, creating job opportunities and rely on local resources.
6.3.7 Legal Framework

The majority of the surveyed recognized the importance of the development of a legal framework to govern SEs operations in Lebanon.
Below is the full text of the answers provided by the respondents:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I suggest checking the Italian legislation for “benefit corporations”</td>
</tr>
<tr>
<td>1</td>
<td>To offer tax reductions for SEs directly related to their social impact</td>
</tr>
<tr>
<td>1</td>
<td>The contribution of state sectors such as water electricity and all services in the law helping the SEs by reducing taxes</td>
</tr>
<tr>
<td>1</td>
<td>Should include public-private partnership provision, it could tackle unemployment of specific groups.</td>
</tr>
<tr>
<td>10</td>
<td>No specific legal provisions</td>
</tr>
<tr>
<td>1</td>
<td>(1) Considerations for the government on how to outline, measure and report social impact to differentiate SEs from non-SEs and to monitor the balance between impact and profitability (it's important here not to assume that SEs cannot be highly profitable, they can. However, that must also mean higher social impact in return). (2) Specific taxation law (lower than regular private sector businesses) to ensure that SEs' social impact is accounted for and is not put at risk. (3) Right to receive donor funding (like NGOs) and not have it taxed. Besides the framework itself, the government needs the right capacities to handle this LF, particularly when monitoring social impact. This is an entirely new concept, and in Lebanon the action of 'monitoring' is generally nonexistent - we don't want 1000 random/ineffective SEs opening as NGOs did after the Syrian crisis, just because the model is an opportunity to dodge extra taxes and whatnot.</td>
</tr>
<tr>
<td></td>
<td>Capital needed, number of owners, taxes exemptions and special labeling for the end product that could encourage and facilitate its market reach on a local, national and international scale</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>incentives in the shape of tax reductions or/and public procurement investment in SEs</td>
</tr>
<tr>
<td></td>
<td>Highlight on social impact generation</td>
</tr>
<tr>
<td></td>
<td>I think the SEs should have some exclusions of the income tax declaration as they are contributing in the development of the socio-economic environment and sustaining the economic wheel.</td>
</tr>
<tr>
<td></td>
<td>Simplification of regulations</td>
</tr>
<tr>
<td></td>
<td>Should not be restrictive rather enabling for entrepreneurs and takes into account breaking barriers- it should be an inclusive process that recognizes the social mission</td>
</tr>
<tr>
<td></td>
<td>Decent working conditions impeded in the legal framework as well as registration processes</td>
</tr>
<tr>
<td></td>
<td>Importance of including nationality and equality aspects</td>
</tr>
<tr>
<td></td>
<td>Tax exemption for the first three operational years NSSF exemption for the first three operational years Facilitate the Right to Access Information The flexibility to work from a home office to reduce expensive office rentals</td>
</tr>
</tbody>
</table>

### 6.4 Key Informant Interviews

The data was collected from a survey, 132 key informant interviews across Lebanon, as well as focused group discussions on selected questions and feedback.

Indeed, when interviewed, the compiled responses of 132 key informant interviews on social enterprise in Lebanon showed the following:

a. **Challenges**
Key findings in this question are that the majority of 61 interviewee believe SEs main challenges are of societal nature (mindset & discrimination) while 44 interviewees recognized the financial factors as main challenges facing SEs in Lebanon.

b. Government support

The majority of 34% of the respondents stated that regulatory support is the main requirement from policy makers to enhance SE in Lebanon.

c. Sector
d. Reasons behind SE success

<table>
<thead>
<tr>
<th>Reasons behind SE Success</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not sure</td>
<td>0</td>
</tr>
<tr>
<td>Not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Impact on the society</td>
<td>6</td>
</tr>
<tr>
<td>Social status</td>
<td>28</td>
</tr>
<tr>
<td>Innovation</td>
<td>14</td>
</tr>
<tr>
<td>International reputation</td>
<td>3</td>
</tr>
<tr>
<td>Wealth of owners</td>
<td>0</td>
</tr>
</tbody>
</table>

The interviewees (40%) recognize SEs impact on communities and on society in large, nevertheless 25% of them also highlighted the distinctive innovation of the SE initiatives.

The distribution of the interviewees was as follows:

a. Gender:
b. Age:

![Age Chart]

<table>
<thead>
<tr>
<th>Age</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-32</td>
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</tr>
<tr>
<td>32-45</td>
<td>12</td>
</tr>
<tr>
<td>45-65</td>
<td>11</td>
</tr>
<tr>
<td>above 65</td>
<td>6</td>
</tr>
</tbody>
</table>

c. Interviewee position and education

![Interviewee Position Chart]

<table>
<thead>
<tr>
<th>Position</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analist</td>
<td>6</td>
</tr>
<tr>
<td>C Suite</td>
<td>7</td>
</tr>
<tr>
<td>Employee</td>
<td>1</td>
</tr>
<tr>
<td>Entrepreneur</td>
<td>5</td>
</tr>
<tr>
<td>Local...</td>
<td>4</td>
</tr>
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The interviewees represent a wide spectrum of local activists, professionals, academics, local authorities and decision makers from across the Lebanese geography with tangible representation of women and youth.

6.5 Focus Group Discussion and conclusion

It is worth noting that the triangulated data shows that the SE sector was recognized to have significant opportunities for growth and scaling especially with the growing acceptance of SEs
and the growth of social innovation and youth involvement. For instance, all interviewees were found to be familiar with the concept and have started or wanted to support its growth. It is also of great importance to highlight that the sweeping majority of the interviewees stated that the creation of a comprehensive legal framework is of extreme importance, an LF that will ensure flexibility to SEs to adopt diversified legal forms.
Chapter Seven

Lessons learned

Many lessons on establishing an enabling policy ecosystem for social enterprises are presented below, arising from the comparative analysis of different initiatives.

7.1 On the Initiation, validation, and mindset levels:

7.1.1 Increasing awareness and visibility of social enterprises, and addressing misconceptions

Social enterprises’ field is raising worldwide interest, yet there is still partial understanding of their particularities. This causes misconceptions that prevent policy makers to properly meet their needs and provide them with the right environment to prosper. Despite this fact, policy makers can still actively support their visibility. For instance, France enacted a “law on the Social and Solidarity Economy” in 2014 that legally recognized the institutions representing the “social and solidarity economy (SSE)” at the national level and strengthened the regional SSE chambers networks. The law scope was a broader than SEs, yet it clearly identified them, created conducive conditions for their growth, and anticipated the use of a precise certification for these entities.

In addition, policy makers can assist in raising funders’ awareness of SEs, with the help of social finance intermediaries, who help support funders create adequate financing schemes. Examples of this kind of assistance include “Portugal Inovação Social”, a market catalyst that helps SEs access to finance, supported by the Portuguese government, and FASE, a german organization that utilizes a a “deal-by-deal” method to plan a customized “financing scheme” that meets both needs of SEs and impact investors.

7.1.2 Supporting mechanisms that can contribute to increasing the SEs’ visibility.

In the lightly populated area of Soria in Spain, El Hueco is vigorously advocating SEs creation to capitalize on their positive role and their contribution to restoring the population in this area. El Hueco collaborates thoroughly with the provincial council and the public administrations at
four levels: local, regional, national and European levels, and plans regular events to bring together SEs, investors and public sector representatives.

7.1.3 Establishing strategic and multi-stakeholder partnerships

Strategic partnerships are extremely beneficial if established between a variety of stakeholders in the SE ecosystem to include public, private and SEs. Actually, when policy makers work on these types of partnerships, they facilitate SEs access to public and or private markets, the establishment of value chains and the benefits received from complementary recourses, skills and networks. For instance, the partnership between the “software corporation SAP”, a multinational corporation, and the SE “Specialisterne” in Denmark, works on an inclusion approach of people with disabilities, Autism in particular, in the job market at including people with autism in the job market by highlighting their exceptional skills. “Specialisterne”, which is currently part of the SAP value chain, has extended its operations to a dozen more countries countries, forging new partnerships on multinational and local levels alike and thus creating a larger impact.

Support frameworks for SEs can be established properly if potential stakeholders are engaged and consulted in the discussions. In fact, when a community inclusion approach is adopted in an institutional development process, the final outcome can properly reflect the stakeholders’ needs. The subsequent institutional changes will have a higher chance to be appropriately implemented, and to sustain changes on the government level. “The Barcelona City Council Decree for Socially Responsible Public Procurement” emerged after an extensive consultation process. This process included 50 delegates representing 40 different entities. The list of delegates to include social activists, thematic experts, SEs, private entities, local authorities and political parties. These recurrent meetings and gatherings target was to help the attendees reach common ground and collaboratively draft the legal text, which was vital success. Adding to this, and through this participatory approach, every participant had the buy in the Decree, acknowledging the benefits and the risks alike.

7.1.4 Social-entrepreneurship features and skills integration in the educational system

The assimilation of entrepreneurial education, on the primary and the secondary levels, isn’t advanced in most of the “Organization for Economic Co-operation and Development (OECD)” countries. This is unfortunate as these countries are missing on the great entrepreneurial values
such education could foster to students such as creativity, collaborative skills, ethical thinking, social commitment which are integral features of social entrepreneurship. Organizations can compensate for this gap through extra-curricular programs addressing students throughout the academic system. Yet, the problem relies in the lack of training provided to teachers as they rarely have the opportunity to be continuously trained on social entrepreneurship. They don’t have the appropriate knowledge on the topic and are reluctant to adopt new, project-based pedagogical methods.

Makers and shapers of public policies have an essential part to play in creating and executing policies nurturing entrepreneurial education and aiming at increasing students’ capacity to detect and benefit from ventures that create social value. For instance, the “French Law on the Social and Solidary Economy” established the “Higher Council for the Social and Solidarity Economy” which targets the promotion of the inclusion of SE in the public education system to outreach to the largest youth demographics.

Supporting tri-partnerships between schools from the public and private sector with an addition of SEs specialized in providing social entrepreneurship education programs is an auspicious approach that the government could foster without any extra cost.

In order to help SEs become viable and sustainable, nurturing social entrepreneur’s business acumen and technical knowledge is essential. Thus, SE support organizations, like business incubators, and networking platforms depend on experts who have long track record in both traditional businesses and SEs and work on building the social entrepreneurs’ financial capacities without forsaking their undertaken social value. The “Copenhagen Project House (KPH)” incubator provides SEs with mentoring and peer-to-peer activities from the ideation phase to scaling-up. “KPH” through a large network of private partners recognize the skills needed to work with SEs; and give a boost to SEs, allow them to put their ideas to test and generate funding opportunities and attract social capital.

### 7.2 On the legal framework/development level:

#### 7.2.1 Establishing “user-friendly administrative processes”

SEs frequently encounter multifaceted and exhaustive, red-taped procedures. “Portugal Inovação Social” stresses on the challenges SE face when attempting to navigate through “EU structural fund procedures”. One of the major challenges an SE faces in Croatia, is the hefty
bureaucracy and the endless list of requirements to be awarded the “social enterprise” status jeopardizing the execution of the “National Strategy for the Development of Social Entrepreneurship”.

Furthermore, the public-procurement procedure is an extremely difficult yet necessary exercise for SEs. “NESsT” indicates that the procedures are pretty complex and very demanding, they push away SEs that are not technically equipped to navigate the process. Also, it is pretty challenging for public administrations to comprehend and consider the implementation of clauses pertained to social impact. For instance, many public officials in Barcelona lacked the necessary know-how to execute the “City Council Decree for Socially Responsible Procurement” and to assess offered tender documentations. “ESFund TISE” in Poland has recommended that there should be a revision and relaxation of some of the long-lasting, inflexible public procurement and financial arrangements procedures, it is believed that these procedures may no longer be appropriate for SEs. Finally, there is a great opportunity for policy makers to capitalize on the tools used by support organization in their support to SEs and replicate these tools in navigating administrative procedures.

7.2.2 Ensuring “institutional continuity and political support for social enterprises”

Continued support on the policy level is indispensable to create an empowering SE ecosystem permitting SEs to flourish. Both evolving and well-established SE ecosystems can benefit from a political momentum that can create an empowering environment and enabling conditions for SEs. Nevertheless, hurdles may arise in the absence of adequate political support. Robust political commitment in Croatia would possibly have made the design and adoption of the “National Strategy for the Development of Social Entrepreneurship”. On the other hand, in 2013, Portugal witnessed a wave of political unity over the concept of SE at the executive branch level which surpassed partisan connections and guaranteed a smooth process of change within the government that led to the establishment of “Portugal Inovação Social”.

7.2.3 Fostering viable and sustainable social enterprises

Policy makers should detect SEs’ financial needs and create adequate financial support tools. In the UK, for example, a 3 year funding program called “Big potential” provides funding, in form of grants, to SEs to help them become investment ready and repay any obtained investments. The funding, grant, is given relatively to the SE stage of growth and need and is coupled with business development support sessions.
Additionally, policy makers should consider offering support to initiatives that help social enterprises make the shift from a being grant/funding dependent to become investment ready and venture into obtaining financial products and tools and investment opportunities. A repayable instrument pilot in Poland, “ESFund TISE”, provides a hybrid support model to SEs which is a mix of financial support, a loan, and technical support, free hours of business development support provided by an expert in a wide range of thematic.

At last, innovative financial instruments can enable this altering pattern and help SEs identify the correct mean for attaining financial sustainability. Nevertheless, small SEs often find these instruments services costly, therefore, “Portugal Inovação Social” offers a wide variety of innovative tools to ease the burden on the SEs, these tools are grants and vouchers that allow SEs to have access to tailored support by technical experts in the fields of building a business model, financial management, social impact assessment and measurement, and governance.

**7.2.4 Support de-risking instrument for finance intermediaries**

Support on the public and the communal level is indeed a key source of funding for many SEs, yet a growing number of SEs are currently trying to access funding provided by mainstream institutions, banks, or new funding enthusiasts, such as impact investors. Nevertheless, SEs remain challenged by their ability to become investment ready or possess sustainable business models.

Germany’s “FASE” emphasizes on producing “impact-investment” channels that assemble SEs that are investment ready with impact investors and guide them throughout the matching process. As such, it undoubtedly shows that early-stage social enterprises and the intermediaries institutions, aiming to offer them the necessary capital, vitally need both public/communal support and philanthropic funds to survive and prosper.

SEs are generally perceived by traditional funders, impact investors and commercial banks, especially newly formed ones, as high risk institutions reducing their appetite and likelihood to invest in them. An efficient mitigation to this challenge is “guarantee schemes” built on sharing or amortization of risk. “JEREMIE Sicily”, an Italian financial instrument, helps SEs and SMEs have access to credit through a guarantee fund. “Portugal Inovação Social and its Social Innovation Fund” promote co-investment mechanisms with SEs, these mechanisms are backed by pledges to the co-investors which improves the SE’s risk profile and allows them access to funds with more favorable terms.
7.3 On the impact measurement and evaluation level:

Impact measurement and assessment culture is still very nascent and weak within the SEs ecosystems, despite being increasingly asked by the public and private funders to do so (OECD and European Commission, 2015).

Firstly, focusing thoroughly on assessing their impact, SEs can be distracted from creating social impact and push SEs to alter their organizational structure. “The financial intermediary PHINEO”, a Germany based nonprofit analysis and consulting company, has contacted over 200 opinion leaders across the country, explaining SEs’ mission and organization structure, and their incorporation features when constructing impact assessment conditions. It also publishes guides, such as the “Social Impact Navigator”, which examines SEs’ impact measurement experiences in details, coupled with advice, a checklists and step-by-step activities.

Secondly, impact measurement requires skilled individuals and resources which SEs are usually short off. Dedicated support on the policy level to help SEs learn how to measure their impact is extremely vital.

Finally, fostering partnerships with the higher academia should be pursued by policy makers to bring together researchers in the social sciences, economics, psychology and management to develop pioneering research on impact evaluation and measurement systems, similar to the research “Alter’Incub” in partnership with “Occitanie” has initiated in Montpellier universities.
Chapter Eight

Recommendations

8.1 Establishing an autonomous governmental SE governance body:

The official definition of governance is “systems and processes that ensure the overall direction, effectiveness, supervision and accountability of an organization” (Cornforth, 2003). If this is the case on a microlevel, then such a body is crucial the whole SE sector at a macrolevel.

In fact, policy makers should identify the characteristics, mission and requirements of SEs and translate them into tailored policy actions to support their growth through this governance body. These policy actions should be designed using an all-inclusive approach to ensure that the different parts are inter-connected and coherent. In other words, establishing a legal framework without facilitating market access, encouraging a diverse financial landscape and nurturing skills in parallel will have a minimal, if not a counterproductive, impact on SE development.

8.1.1 Legal frameworks

They are of monumental importance as they provide clarity to the SE concept by identifying the nature, mission, and scope of SEs activities. They are essential as they provide SEs with validation and visibility. As such, they push decision makers to provide support to SEs via diversified means, including monetary measures, and they clarify to financial institutions and impact investors the advantages of financially supporting these enterprises. The governance body should prepare accurate, clear and precise legal frameworks in order to avoid confusion and thus harm SEs. Legislators can establish adequate legal frameworks by adapting current legislation on specific legal forms, such as cooperatives, or by enacting new laws. It is crucial to consider flexible normative tools as they may be easier to adapt to newly emerging developments in the sector.

In addition, “access to finance” is crucial throughout the life cycle of SEs. The latter uses a range of funds, “ranging from subsidies and debt instruments to equity, patient capital and
impact investments based on their growth stage” (OECD and European Union, 2016). Donations from private sources are less common but also are considered as a source of funding. In parallel, financial intermediaries are also emerging as a source of financial support for SEs. Yet, access to funding is not attainable without the SE governance body support. Decision makers have to work on capacitating the SEs with the right skills to help in attract and unlock funds that are appropriate to them. It is true that advocating for the mobilization of private funds is needed, yet public support remains essential especially that SEs face complex challenges.

In order to ensure sustainability, SEs should be able to access public and private markets. The governance body could support several tools achieve this goal:

1) promoting, on local and national level, the use of social clauses in public procurement
2) backing up social procurement by the private sector and bridging the relationships with SEs
3) providing equal opportunities, by allowing the same empowering policy measures MSMEs and SEs
4) encouraging the development and the accessibility to a tailored SE management curriculum in universities.

8.2 Investing in Education and Business Support

Social entrepreneurship should be encouraged in the long run, not only in the short term. This is why, policy ecosystems should focus on developing education and skills that nurture entrepreneurship spirit. Educational programs on SE can thus prepare students to think about innovative solutions to existing unresolved social problems.

Business support is also crucial for SEs during their development phase. As a matter of fact, targeted public support is of a vital importance. This can be done through hubs, accelerators, or incubators to guarantee their sustainability. Furthermore, coaching, training or consultancy services also contribute in building the social entrepreneurs’ skills and capacities by training them for instance on business development plans and proper access to finance and providing them with investment-readiness support in order to expand at a later stage. The type of support that SEs should receive is not identical to that of commercial enterprises, as SEs should attain sustainability on the financial front and at the same time maximize its social impact. As such, decision makers may prefer to opt for “braided support” “both for general business skills and social enterprises” specific needs (OECD and European Union, 2013).
Chapter Nine

Conclusion

There is no single suitable approach that can be applied in all circumstances. Actually, a number of factors affect the chosen method for a selected nation, including to what extent social entrepreneurship originates from the philanthropy or for-profit sectors, the targeted goals and views on the adequate balance between protecting their SE mission and attracting capital.

It is vital to define the role of SEs and identifying the kind of support that will be there to secure its long-standing sustainability.

Legal framework is vital to help SEs achieve their vision. Critics normally disagree on the necessity to agree on a unified definition for SE. While some consider that lacking a unified definition delays advanced in-depth research and harms the SE model, others believe that disagreements are reasonable given the diversity embodied in SE work. They also note that not defining SE in precise words increase the flexibility and innovation in the field (Lyon, 2009) (Martin & Osberg, 2007) (SEUK, 2012).

A widely approved and officially adopted SE definition helps creating a concurrence around the SE socio-economic model, while guaranteeing that the certification mechanism through a regulating body that frequently created after the legal definition does not prevent the SE creation. The practical and contextualized definition can be of major support for the SE sector when it accompanies a regulatory body that aims at responding to the challenges that SE face in a particular country. This would need a community-based assessment of existing SEs to portray the challenges faced by its creators to influence an adequate and comprehensive legal framework (World Bank Group, 2016).

Eventually, there is intertwined relationship between definitions and governing structures for social entrepreneurship, and they complement each other in creating an enabling environment, ecosystem, to SE. Once a legal form for SE is established in a given country, this could constitute the base of SE definition.

Governmental support for SE is crucial to guarantee financial sustainability. This can include tax exemptions or wage subsidies. In addition, a legal framework within a broader legal framework has an equal importance. In fact, a SE legal framework that allows entities to
register as SEs will be meaningless in a country where governance is low, and corruption is high. Similarly, a new legal identity for SE that adopts the company form will be useless in a country where substantial barriers for companies being established and operated do exist. As such, a review of a comprehensive legal frameworks is essential to the formation and advancement of SE.
References


## Appendix 1: Research Matrix and Data Sources

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Annex 1

“35.—(1) For the purposes of section 222(8)(b) of the 2007 Act (Local Healthwatch: social enterprises) the criteria prescribed are that the constitution of the body must—"

“(a) state, or contain provisions which ensure, that not less than 50 per cent of its distributable profits in each financial year will be used or applied for the purpose of the activities of that body;”
“(b) contain a statement or condition that the body is carrying on its activities for the benefit of the community in England; and”
“(c) where appropriate, contain provisions relating to the distribution of assets which take effect when that body is dissolved or wound up, as specified in paragraph (2).”

“(2) The provisions referred to in paragraph (1)(c) are ones which—"
“(a) require that the residual assets of the body be distributed to those members of the body (if any) who are entitled to share in any distribution of assets on the dissolution or winding up of that body according to those members’ rights and interests in that body;”
“(b) in the case of a company not limited by guarantee and registered as a charity in England and Wales, provide that no member shall receive an amount which exceeds the paid up value of the shares which the member holds in the company; and
“(c) designate another social enterprise (within the meaning of section 222(8) of the 2007 Act) to which any remaining residual assets of the body will be distributed after any distribution to members of the body.”

“(3) The criteria prescribed in paragraph (1) do not apply to the following bodies—
(a) a company limited by guarantee and registered as a charity in England and Wales;
(b) a community interest company registered as a company limited by guarantee;
(c) a charitable incorporated organization (within the meaning of Part 11 of the Charities Act 2011(1) (charitable incorporated organizations)).”

“(4) In this regulation—
charity has the meaning given in section 1(1) of the Charities Act 2011;”
“community interest company” means a company as referred to in section 26 of the Companies (Audit, Investigations and Community Enterprise) Act 2004(2);”
“constitution” means—
“(a) in the case of a company, the company’s memorandum and articles of association; and
(b) in the case of any other body, a written instrument which sets out the purpose, objectives, proposed activities and provisions for the governance of the body, including any provisions relating to the membership of the body and the distribution of profits and assets;”
“distributable profits” means—
“(a) in relation to a company, the company’s profits available for distribution, within the meaning of section 830 of the Companies Act 2006(3); and
(b) in relation to any other body, its accumulated, realised profits, so far as not previously utilised by distribution, less its accumulated, realised losses, so far as not previously written off;”
“financial year means the 12 month period that a body uses for accounting purposes;”
“realised losses” and “realised profits” means the losses or profits of the business carried on by the body as fall to be treated as realised in accordance with generally accepted accounting practice; “residual assets” means, in relation to the dissolution or winding up of a body, the assets of the body which remain after satisfaction of the body’s liabilities”