

A Not So Invisible Hand

Deep Within the Lebanese Black Market

Chapter II: The Unregistered

Businesses Epidemic

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Executive Summary:

In the shadows of Lebanon's business landscape, a clandestine network of unregistered businesses operates. Parallel to the formal economy where registered businesses operate under the law, this economy exists out of reach of formal oversight and away from regulatory frameworks imposed by the government. These businesses extend to an underworld of illegal activities pertaining to the pharmaceutical, agricultural, transportation, and tens of other sectors. Whether it is small vendors escaping the burden of taxation and licensing fees or larger enterprises operating without regulatory compliance, such shadow activities greatly impact Lebanon.

The history of this parallel economy dates way back to the Phoenician era. The high taxation rates, economic disparity, and bureaucratic red tape perpetuate the cycle of illegal activities and push Lebanese entrepreneurs to seek refuge in this shadow economy. The immense distrust in governmental institutions will always be the main driver of leaving businesses unregistered. With a dark history of registration rejections, increasing licensing fees, and the inability to hear back about your business unless your great, great uncle has "connections", it has come with no surprise that the number of those businesses increases by the day.

These informal businesses continue to entwine themselves deeper into the fabric of society, becoming a paramount, but invisible, pillar of the formal economy. Considering their expansion and immense boost of the Lebanese economy, they are also nearing the domination of said formal economy. These shadow activities are known to create jobs, sustain the livelihoods of the vulnerable population, and ease economic hardships. With all these benefits, why is the parallel economy perceived negatively?

In a nutshell, they underscore systemic failures through tax base erosion, diminish public revenue, and leave a big portion of our economy in the shadows. They create an uneven competitive landscape and allow illegal activities to take place. As the scale of unregistered businesses skyrockets, their activities shroud in secrecy, remain unrecorded and theoretical, and leave official figures scarce and inauthentic. This continuous current of informality and stealth poses a particular conundrum to economists, challenges GDP calculations, and makes us question conventional economic theories. Overall, this parallel economy negatively impacts workers, competitors, calculations, and the economy as a whole.

Lebanon must work to tackle obstacles and enhance the advantages of the formal economy. In the shadows of this dim economic maze, the main challenge lies in illuminating its hidden corridors and ensuring a more equitable and supportive commerce environment. What our country needs is an immediate evaluation of existing policies to study the gap in the system and discover the real reasons pushing entrepreneurs to function in the dark. The country also needs vast policy changes to encourage the Lebanese youth to enter the business market instead of running away from it.

Now that we have an improved understanding of the dynamics of the shadow economy, the chapter gains ground. It aims to explore the history of unregistered businesses, the different sectors involved in this parallel economy, their extensive impact, and, finally, necessary policy alternatives.

1. Historical Context and Emergence of Unregistered Businesses in Lebanon

The emergence of unregistered businesses in Lebanon is deeply rooted in the region's historical, social, and economic contexts, dating back to the Phoenician era. Informal economic activities were common during that time, but the concept of business registration, as understood in the modern sense, evolved during the Ottoman era. Consequently, the proliferation of unregistered businesses in Lebanon significantly increased during the period of Ottoman rule from 1516 to 1918¹. Furthermore, the Lebanese Civil War (1975-1990) also played a significant role in shaping the landscape of unregistered businesses. During this period, the breakdown of state institutions and regulatory frameworks led to the flourishing of informal economic activities as a means of survival amidst chaos².

Unregistered Businesses During the Ottoman Era

Primarily, Lebanon's history as part of the Ottoman Empire significantly influenced its economic structures. The region's geopolitical position along the Mediterranean coast made it a crucial hub for trade between Europe, Asia, and Africa. This strategic location facilitated a thriving trade environment, but the decentralized and feudal nature of the Ottoman administration in Lebanon allowed for various informal economic activities to flourish. During Ottoman rule, Lebanon's economy was predominantly agrarian, supplemented by local and regional trade³. The social structure was largely tribal and feudal, with local lords (emirs and sheikhs) exerting considerable control over their territories. This decentralized governance system provided fertile ground for the emergence of unregistered businesses, as local economies operated with significant autonomy from central Ottoman oversight⁴.

Furthermore, the agricultural sector was the backbone of Lebanon's economy. Small-scale farmers engaged in producing olives, grapes, and other crops, often selling their produce in local markets or through informal networks without formal registration. These farmers operated within a system of traditional practices and community trust, bypassing the need for official business structures⁵. In addition to agriculture, crafts and artisanal work were integral to the Lebanese economy. Artisans producing textiles, pottery, metalwork, and woodcrafts typically operated informally. These skills were passed down through generations, and the lack of formal institutions to regulate these trades meant many artisans worked without registration. The products of these cottage industries were sold locally or through small-scale traders, further embedding the informal economy within the social fabric.

Lebanon's role as a trading center also facilitated the growth of unregistered businesses. Merchants engaged in trade routes connecting Lebanon to surrounding regions, such as Syria and Palestine,

¹ Traboulsi, Fawwaz. *A History of Modern Lebanon*. Pluto Press, 2012.

² Makdisi, Samir. *The Lessons of Lebanon: The Economics of War and Development*. I.B. Tauris, 2004.

³ Issawi, Charles. *An Economic History of the Middle East and North Africa*. Columbia University Press, 1982.

⁴ Harris, William. *Lebanon: A History, 600-2011*. Oxford University Press, 2012.

⁵ Firro, Kais. *A History of the Druzes*. Brill, 1992.

often operated without formal business structures. Trading caravans and maritime traders bought and sold goods across the Ottoman Empire and to Europe, frequently evading official oversight and taxation⁶. Urban centers like Beirut, Tripoli, and Sidon became bustling marketplaces, with numerous small, informal vendors selling food, clothing, and other goods. The informal nature of these markets meant many businesses operated without official recognition. These urban marketplaces were vital to the local economy, providing livelihoods for countless individuals and families⁷.

Several factors contributed to the proliferation of unregistered businesses in Lebanon. The regulatory environment under the Ottoman administration had limited reach, especially in rural and mountainous areas. This lack of oversight allowed informal businesses to thrive. Economic necessity also drove many people to engage in informal businesses. Formal registration required resources and compliance with regulations that small-scale entrepreneurs often could not afford or navigate. The burdensome nature of these requirements made informal operations more viable⁸.

Unregistered Businesses During the Lebanese Civil War

During the Lebanese Civil War, which lasted from 1975 to 1990, unregistered businesses flourished due to the chaotic environment. The breakdown of government institutions and regulatory frameworks led to a collapse of state oversight, allowing many businesses to operate without formal registration⁹. The war created an unstable and dangerous environment, deterring formal economic activities and prompting business owners to avoid official registration to escape bureaucratic processes, taxation, and the risks associated with visibility to warring factions. In addition, the widespread destruction of infrastructure and industrial facilities forced people to find alternative means of livelihood, leading many to turn to small-scale, informal businesses for survival. The displacement of large numbers of people, both internally and externally, saw displaced individuals engage in informal economic activities such as street vending, home-based businesses, and small-scale trading to support themselves and their families¹⁰.

Moreover, the conflict gave rise to a war economy where goods and services were exchanged through informal channels, with smuggling and black markets thriving as formal trade routes were disrupted and official supply chains broke down¹¹. The fragmentation of control among various militias and factions, each imposing their own rules and systems, allowed for the emergence of localized, informal economies where unregistered businesses could operate relatively freely. In the absence of a strong central government, communities relied on their own support systems, which facilitated the growth and sustainability of informal businesses. Economic transactions during the

⁶ Owen, Roger. *The Middle East in the World Economy, 1800-1914*. I.B. Tauris, 1993.

⁷ Hanssen, Jens. *Fin de Siècle Beirut: The Making of an Ottoman Provincial Capital*. Oxford University Press, 2005.

⁸ Gates, Carolyn L. *The Merchant Republic of Lebanon: Rise of an Open Economy*. I.B. Tauris, 1998.

⁹ Najem, Tom. *Lebanon: The Politics of a Penetrated Society*. Routledge, 2011.

¹⁰ Picard, Elizabeth. "The Political Economy of Civil War in Lebanon." In *War, Institutions, and Social Change in the Middle East*, edited by Steven Heydemann, 292-322. University of California Press, 2000.

¹¹ Dib, Kamal. *Warlords and Merchants: The Lebanese Business and Political Establishment*. Ithaca Press, 2004.

war were frequently based on trust and personal relationships rather than formal contracts and legal frameworks, favoring unregistered businesses that operated within these informal networks¹².

Additionally, many businesses chose to remain unregistered to avoid paying taxes, reducing costs and remaining competitive in a difficult economic environment. The bureaucratic hurdles and regulatory compliance associated with formal business registration were impractical or impossible to navigate during the war, allowing unregistered businesses to bypass these obstacles and operate with greater flexibility¹³. The need to rapidly adapt to changing market conditions saw unregistered businesses quickly pivot to meet new demands, such as supplying scarce goods or offering essential services in conflict zones. The resilience and entrepreneurial spirit of the Lebanese people played a crucial role in the proliferation of unregistered businesses, with individuals leveraging their skills and resources to create new economic opportunities amidst the turmoil.

In conclusion, the historical emergence and persistence of unregistered businesses in Lebanon are deeply intertwined with the region's socio-economic evolution and tumultuous history. From the decentralized feudal systems of the Ottoman era to the war-torn landscape of the Lebanese Civil War, various factors have driven the informal economy's growth. The combination of limited regulatory oversight, economic necessity, and the resilience of the Lebanese people has ensured that unregistered businesses remain a significant part of Lebanon's economic fabric¹⁴. As Lebanon continues to navigate its economic challenges, understanding this historical context is crucial for shaping future economic policies and development strategies.

¹² Corm, Georges. *Le Liban contemporain: Histoire et société*. La Découverte, 2003.

¹³ Leenders, Reinoud. *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*. Cornell University Press, 2012

¹⁴ Salti, Nisreen, and Jad Chaaban. "The Role of Sectarianism in the Allocation of Public Expenditure in Postwar Lebanon." *International Journal of Middle East Studies* 42, no. 4 (2010): 637-655

2. Types and Sectors of Unregistered Businesses

In the ever-evolving world of food and dining, some of the most popular culinary concepts are often found unregistered. In this interview, we engage with one of the owners of an unregistered business to explore the obstacles they face and their reasons for staying unregistered¹⁵.

The business in question, Shake'n Bite, was launched in the summer of 2023. The business partners chose this name as it perfectly captures the concept that they are trying to develop – food shakers. They offer a variety of fast-food options featuring diverse flavors and serve salads and several options catering to vegans and vegetarians. “We are currently working on expanding our menu with various new options and concepts, aiming to serve a wider range of customers and increasing the satisfaction of our regulars,” states the interviewee. So far, Shake'n Bite does not have a physical location and only showcases its offerings at festivals with food stands. They have actively taken part in festivals across Lebanon such as in Aley, Abey, Al Bennay, and Al-Helalieh, providing them with great exposure and a reliable customer base.

At this early stage of development, the owners have chosen to delay registering their business because of the many uncertainties in the legal and financial aspects of the process in Lebanon. “In our country, this procedure can be challenging due to the lack of well-established legal institutions and regulatory framework, which makes registration lengthy, expensive, and disorganized,” explains the interviewee. In addition, the primary challenge preventing the owners from registration is the financial constraint. “We are constantly allocating our resources towards refining our product offerings before committing to the additional expenses of registration,” elaborates the business partner. It is a common practice among startup businesses to navigate the hurdles of operating without registration to manage initial costs more effectively, and to allow themselves time to assess whether registering our business is the optimal decision in terms of market demand for their products¹⁶. In general, the legal and financial disadvantages of registration prevent many businesses from compliance with the process.

However, the delay in registration comes with its restrictions. Operating as an unregistered business hinders Shake'n Bite from expanding properly, as they miss out on formal contracts and partnerships which can open business opportunities. Moreover, their status carries many risks including legal vulnerabilities and limitations. For example, operating such businesses can result in tax implications like penalties. It also can also negatively impact reliability with customers. The owners of Shake'n Bite are adapting to these challenges in the Lebanese business landscape. Firstly, they are aware of the minimal legal institutions to properly oversee business operations in the country. “We have been fortunate not to encounter such issues so far, but we remain aware of the risks that we might face, and we aim to prepare for these instances,” declares the interviewee. Furthermore, they tackle the issue of customer trust by making preparations visible to all customers,

¹⁵ International Labour Organization. "Informal Employment and Micro-Enterprises in the Arab States: Understanding the Transition to Formality." ILO Publications, 2021.

¹⁶ El-Khoury, Gabi, and Jad Chaaban. "The Economic and Social Impacts of Business Registration in Lebanon." *Lebanese Economic Journal*, 2019.

and thus portraying their cleanliness and hygiene. “Our primary focus is to provide exceptional food and service, so we actively seek feedback from our customers to enhance our products,” mentions the business partner.

Like many others, Shake’n Bite is dedicated to advancing and expanding their venture even further, hoping to open a physical restaurant and gain access to more business opportunities. This is why they acknowledge the importance of registration and plan to oversee the process as soon as they overcome their current dilemmas. After refining their menu, perfecting their recipes, and further showcasing their business, they assure that they will begin the registration process. It is of no question that the lack of regulatory oversight in Lebanon should not dissuade others from following the law and formally registering their businesses. Corruption pulls corruption and change comes from instances like these. By registering businesses, owners contribute to a fair economic environment. Following the law is crucial and remains a fundamental responsibility for any person or enterprise.

2.1. Informal Retail and Street Vendors

In Lebanon, approximately 34% of the private sector operates informally, illustrating the significant role played by the shadow economy¹⁷. As defined by Euromonitor International, informal retailing involves trade conducted by unregistered or unlicensed retailers, typically not reported to tax authorities¹⁸. These retailers primarily, though not exclusively, operate as street hawkers, at open market stalls or in informal shops, making them more challenging to monitor compared to permanent outlets.

Within the nation, informal retailing has surged in popularity since the onset of the current economic crisis. With household incomes under severe pressure, consumers naturally turn to informal retailing to minimize living costs. The parallel trade in clandestine imports provides an ideal solution to the challenges posed by extremely high inflation.

Moreover, informal retail encompasses various types of small-scale, unregistered businesses that operate outside formal regulatory frameworks. For instance, street vendors sell goods such as fruits, vegetables, and accessories from carts or stalls. Additionally, flea markets and night markets feature vendors offering second-hand goods, crafts, and local foods in open-air settings. Furthermore, hawkers travel to sell merchandise directly to customers, roadside stalls provide local produce and snacks, and home-based businesses offer homemade items like baked goods and crafts. Finally, mobile shops operate from vans or trucks, selling goods in neighborhoods or at events. These forms

¹⁷ 961 Today. "The Shadow Economy: How Informal Retail is Sustaining Lebanon." 2023. Available at: <https://en.961today.com/8967/>

¹⁸ Euromonitor International. "Retailing in Lebanon." Euromonitor Country Reports, 2023. Available at: <https://www.euromonitor.com/retail-in-lebanon/report>

of informal retail are characterized by cash transactions, minimal record-keeping, and lack of official licensing or tax compliance, playing a significant role in the local economies of many ¹⁹.

2.2. Black Market Pharmaceuticals and Medical Services

In the wake of Lebanon's severe financial crisis, finding high-quality medicinal products has become increasingly difficult. This crisis, driven by political corruption and economic mismanagement, has left many individuals struggling to access the healthcare they need. Alas, as citizens grapple with the stark reality of scarcity, the black market for pharmaceuticals and medical services burgeons, revealing a dark underbelly of desperation and survival.

Given that Lebanon imports 95% of all pharmaceutical products, the devaluation of the currency has led to devastating shortages in medications due to the limited ability to import drugs and raw materials from foreign suppliers²⁰. This economic downturn has made it increasingly difficult to find high-quality medicinal products through legitimate channels, prompting consumers to hoard medications and distributors to ration deliveries to pharmacies on an ad hoc basis. Consequently, a black market for prescription drugs has surged, as desperate individuals turn to unregulated sources to obtain essential medications. This illicit trade not only poses significant health risks due to the circulation of counterfeit or expired drugs but also highlights the urgent need for effective governmental intervention to stabilize the healthcare system. The lack of a coherent policy to redesign the medicine subsidy system, despite ongoing discussions with sector stakeholders, has further exacerbated the issue. Relations between importing agents, the ministry of health, and the central bank have become increasingly hostile in the absence of a unified subsidy policy. Additionally, procedural changes now require import orders to obtain prior authorization from the central bank to access subsidized hard currency, complicating the import process and contributing to the proliferation of black market pharmaceuticals.

Nevertheless, the rise of the black market for pharmaceuticals in Lebanon is not limited to essential medications for chronic diseases. As of March 2024, the unregulated black market for medications like Ozempic thrives due to high demand and barriers to obtaining prescriptions, particularly for weight loss purposes where traditional prescriptions may not be granted, such as in cases of eating disorders. As Madeline Edwards highlights in her article "It's a jungle': Ozempic black market thrives in Lebanon as people seek to lose weight" on *L'Orient Today*, many pharmacists boost this black market by sourcing Ozempic from countries like France, Turkey, and Egypt and selling it without prescriptions²¹. This practice not only circumvents legal and regulatory controls but also

¹⁹ African Marketing Confederation. "Informal Retailing in Africa and the Middle East: Adapting to Economic Realities." AMC Reports, 2022. Available at: <https://africanmarketingconfederation.org/informal-retailing/>

²⁰ Pharmaceutical Technology. "Pharmaceutical Crisis Deepens in Lebanon." GlobalData, 2023. Available at: <https://www.pharmaceutical-technology.com/pricing-and-market-access/pharmaceutical-crisis-deepens-in-lebanon-ht/ml/>

²¹ Edwards, Madeline. "It's a jungle': Ozempic black market thrives in Lebanon as people seek to lose weight." *L'Orient Today*, March 11, 2024. Available at: <https://today.lorientlejour.com/article/1371048/its-a-jungle-ozempic-black-market-thrives-in-lebanon-as-people-seek-to-lose-weight.html>

normalizes and legitimizes the black market. Trusted healthcare professionals engaging in these activities give an impression of safety and reliability, encouraging more people to seek out black market sources. However, this increases the risk of exposure to counterfeit drugs with potentially dangerous ingredients and improper storage conditions, posing significant health risks. The Lebanese Health Ministry and Pharmacists' Syndicate have identified multiple instances of counterfeit Ozempic, with some cases leading to severe hypoglycemia. In short, this illicit market thrives as desperate consumers seek quick weight loss solutions, often bypassing necessary medical consultations, driven by social pressure to conform to body standards.

Furthermore, in Lebanon, the black market for medical services has become a dangerous parallel healthcare system, driven by economic hardship and the influx of Syrian refugees. For instance, a Syrian doctor who illegally entered Lebanon rented a house in the Beqaa Valley and began practicing medicine in his living room. Although he specialized in urology, he provided general medical care and performed limited surgeries. When authorities raided his makeshift clinic, they found smuggled medicines and surgical instruments in an environment lacking basic hygiene and sterilization standards, thereby endangering patient safety²². Moreover, this issue extends to charitable clinics in the region. Due to overwhelming demand, these clinics hire Syrian doctors who enter the country illegally, inadvertently contributing to the unregulated and hazardous medical landscape. Additionally, the desperation for healthcare services includes illegal abortions. Since Lebanon's restrictive abortion laws force women to seek unsafe procedures, many women resort to dangerous self-induced methods or turn to unlicensed practitioners, risking severe complications or death²³. Moreover, the black market also includes organ trafficking, where traffickers exploit the financial desperation of Syrian refugees. An investigation revealed that operations often occur in rented houses with minimal medical standards, further endangering lives. For example, the case of a 17-year-old Syrian boy who sold his kidney highlights the human toll of this illicit trade²⁴. Overall, black market medical services in Lebanon illustrate a perilous healthcare system that poses significant risks to public health, necessitating urgent intervention and comprehensive healthcare reforms.

In conclusion, Lebanon's severe financial crisis has fostered a dangerous black market for pharmaceuticals and medical services, driven by shortages and desperation. This illicit trade poses significant health risks due to counterfeit and expired drugs, unregulated medical practices, and organ trafficking. To address these issues, comprehensive healthcare reforms and enhanced

²² LBC Group. "Unlicensed medical professionals: Citizens must stay alert." LBCI News Bulletin Reports, 2022.

Available at:

<https://www.lbcgroup.tv/news/news-bulletin-reports/686939/unlicensed-medical-professionals-citizens-must-stay-alert/en>

²³ The World. "‘They’re hurting themselves’: Lebanon women risk their lives to get abortion illegally." PRX/The World, June 27, 2022. Available at:

<https://theworld.org/stories/2022/06/27/they-re-hurting-themselves-lebanon-women-risk-their-lives-get-abortion-illegally>

²⁴ Reuters. "Organ trafficking booming in Lebanon as desperate Syrians sell kidneys, eyes." Reuters/BBC, April 2017.

Available at:

<https://www.reuters.com/article/us-mideast-crisis-syria-trafficking/organ-trafficking-booming-in-lebanon-as-desperate-syrians-sell-kidneys-eyes-bbc-idUSKBN17S1V8/>

regulatory measures are urgently needed to protect public health and ensure safe, high-quality medical services for all citizens.

2.3. Informal Transportation and Logistics

Informal transportation and logistics refer to the unregulated and unregistered sector providing transport and logistical services. In Lebanon, this sector has grown due to various economic and social factors, including the high cost of living, unemployment, and the need for flexible and affordable transportation solutions. Unsurprisingly, informal transportation thrives due to the absence of reliable and formal public transit systems, providing an essential service but also operating outside regulatory frameworks. As a result, tax revenues decrease, and formal transport initiatives like the Greater Beirut Public Transport Project (GBPTP) are weakened²⁵.

Although mostly unregulated, Lebanon's informal transportation industry (including shared taxis, minibusses, and private automobiles) is essential. It bridges the gap created by an insufficient official public transportation infrastructure by offering necessary work and reasonably priced transportation, especially for low-income communities²⁶. However, this industry faces difficulties including low-maintenance automobiles creating a safety risk, inefficiencies in the economy, and a large loss of tax money for the government²⁷. Efforts to enhance safety and order through regulation are met with hostility since the industry is deeply ingrained and provides a source of income for many families. To balance the sector's benefits and problems, effective policies should preserve affordability, enhance infrastructure, and encourage formalization.

Economically, this informal sector distorts market competition by undercutting regulated services, which in turn contributes to broader issues of economic informality. The coexistence of formal and informal systems complicates efforts to improve public infrastructure and affects the allocation of resources and investments. Moreover, the integration of the informal sector into formal projects like the GBPTP is challenging, as it requires both regulatory enforcement and incentivization, which are difficult to achieve in Lebanon's current economic and political climate²⁸. These issues should be addressed to create a more equitable and efficient transportation system, which can help reduce overall economic informality and enhance fiscal stability. Not to mention all the other ecological

²⁵ Executive Magazine. "Lebanon's Informal Public Transport System: A Special Report." Executive, 2019. Available at: <https://www.executive-magazine.com/special-report/lebanons-informal-public-transport-system>

²⁶ Beirut Arab University Digital Commons. "The Role of the Informal Public Transport System in Lebanon." Architecture and Planning Journal (APJ), 2021. Available at: <https://digitalcommons.bau.edu.lb/cgi/viewcontent.cgi?article=1003&context=apj>

²⁷ You Against Corruption. "The Unsolved Myth of the Lebanese Transportation System: A Dialogue Between Local Actors." 2022. Available at: <https://www.youagainstcorruption.org/post/the-unsolved-myth-of-the-lebanese-transportation-system-a-dialogue-between-local-actors>

²⁸ TECHLOG Project. "Transportation Sector in Lebanon." ENI CBC Med Programme, 2022. Available at: <https://techlogproject.com/transportation-sector-in-lebanon/>

benefits that come with the integration of formal and public transit that will also foster a better environment overall; but that's a topic for another time²⁹.

2.4. Undocumented Agriculture and Food Production

Though it has great potential, Lebanon's agriculture faces many obstacles. Land ownership fragmentation, labour scarcity, exploitation, and environmental problems are a few of these. Attempts to solve these problems are made more difficult by the informal structure of the sector, since the majority of agricultural labour operates without official paperwork. In order to raise awareness of the systemic issues and suggest alternative solutions to enhance the sustainability and productivity of the sector, this article attempts to investigate the various facets of undocumented agricultural and food production in Lebanon.

Historical context: In Lebanon, the social and political landscape, both local and regional, has always had a significant impact on agricultural growth. It is imperative to recognize the effects of geopolitical tensions in the Levantine region when tackling such issues. The famine of 1915 incentivized increasing attention regarding food security concerns, especially in the policy making propositions leading to the formation of Greater Lebanon in 1920, to guarantee that the new state would not experience starvation once more³⁰. Akkar, the Beqaa Valley, and South Lebanon, all primarily agricultural regions, were annexed to Mount Lebanon to further agricultural and rural development. Nonetheless, the newly founded state of Greater Lebanon quickly encountered political obstacles. In an attempt to win over rural landlords, the French Mandate (1923–1943) abandoned the implementation of its rural development plan, failing to promote a rural economy or lessen regional disparities.

Between 1943 and 1958, as the so-called "merchant republic" grew, Lebanon saw an influx of low-wage labor from Palestinian refugees and regional capital, while trade prospects with the Arab Gulf states rose due to the oil boom. During that time, there was not much focus on utilizing economic expansion to change agriculture. Export-oriented fruit cultivation and a few big agro-industrial businesses have supplanted traditional local agriculture throughout the country, but particularly in the Beqaa Valley and surrounding the Palestinian refugee camps near the coast. The primary goal of food production was regional trade, which fundamentally changed social relations.

President Fouad Chehab's reforms in the late 1950s and early 1960s were an exceptional endeavor to create policies for rural and agricultural development and to combat inequality. Needless to say, the political system challenged Chehab and remained unchanged by the Chehabist revisions³¹. A demographic boom spurred by improved health and lower infant mortality rates was not matched by local economic development, despite export-oriented agriculture and politically connected agro-industrial investments. Furthermore, due to a lack of possibilities in the countryside, more

²⁹ Ministry of Economy and Trade. "Full Report on the Lebanese Economy." Republic of Lebanon, 2018. Available at: <https://www.economy.gov.lb/media/11893/20181022-1228full-report-en.pdf>

³⁰ Traboulsi, Fawwaz. *A History of Modern Lebanon*. 2nd ed. Pluto Press, 2012.

³¹ Leenders, Reinoud. *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*. Cornell University Press, 2012.

people were migrating to Beirut and the city's impoverished belt expanded, which catalyzed social unrest and ultimately contributed to the spark of the civil war in 1975. By the end of the war, a paralyzed Lebanon was left stranded with mass geographical division and no agricultural policy vision despite its promising potential.

Moreover, factors including escalations in the occupied territories of Palestine matched with the 2011 Syrian civil war severely affected the agricultural and food industry in Lebanon. In 2011, around 1.5 million Syrians fled their country as a result of the conflict, increasing the country's food consumption. Although this demand was a hardship, it also had a benefit because it raised the real value of agricultural output from its pre-crisis level by 10%³². People made investments in agriculture, particularly in greenhouses, vegetables, and potatoes, in response to the growing demand for food – after all when there is conflict, there is opportunity. This local venture employed numerous agricultural workers who were Syrian refugees and gave other Lebanese citizens possibilities to earn a living. In the face of shocks to food security, the Lebanese agricultural sector has demonstrated resilience and ability to quickly adapt, fostering social stability and resilience in rural regions even in the absence of political assistance.

Agricultural labor and exploitation: Over the years, there have been substantial changes to Lebanon's labour force in the agricultural industry. In turn, a complicated history of land ownership and economic policies has marked Lebanon's agricultural terrain. A few powerful individuals in Lebanon control access to opportunities and resources, creating an unjust and 'cronyistic' structure that is a major impediment to the growth of the agriculture industry. The factors are mainly of a sociopolitical nature, with technical and agricultural infrastructure concerns coming in second.

The unorganized nature of the agriculture industry acts as the most prominent factor. Many people have been uprooted from rural to urban areas as a result of historical events including the Lebanese Civil War and Israel's occupation of southern Lebanon. Due to this exodus, there was a labour shortage in the agricultural industry, which was made up for by hiring migrant labourers, mostly from Palestine and Syria. Almost all Syrians and almost 90% of Lebanese workers in agriculture are unregistered business endeavors, therefore working informally. As such, labor exploitation is a serious problem associated with the unorganised agriculture industry in Lebanon³³. These employees, many of whom lack legal status, are frequently employed by undocumented farms, making them susceptible to exploitation. Without access to benefits or legal safeguards, these labourers usually face subpar working conditions, dealing with abusive working conditions, meagre pay, and no legal safeguards, such as health insurance or pensions. These problems are further compounded by the difficulty to monitor and control labor practices in the agricultural industry when there are no legal contracts in place, which intensifies this exploitation. Moreover, the

³² Food and Agriculture Organization (FAO). "Agricultural Livelihoods and Food Security Impact Assessment and Response Plan for the Syria Crisis in the Neighboring Countries of Egypt, Iraq, Jordan, Lebanon and Turkey." FAO, 2016.

³³ International Labour Organization (ILO). "Assessment of the Impact of Syrian Refugees in Lebanon and Their Employment Profile." ILO Regional Office for the Arab States, 2014.

devaluation of agricultural labour and the lack of official recognition for farmers creates a vicious cycle of poverty and vulnerability for individuals engaged in agricultural production.

Moreover, in areas like the Beqaa Valley, the concentration of land ownership in the hands of a small number of people has brought about systematic inequality. Due to their oligopolistic hold on the market, metropolitan commercial classes control the majority of agricultural exports, establishing prices and marginalising small farmers who find it difficult to become part of the value chain. In addition to making farmers poorer, this dynamic widens regional disparities by pushing those with fewer land and resources out of a market that is becoming more and more competitive.

It is challenging to fully assess the economic contribution of illegal agricultural workers due to a lack of legislation and control. Nonetheless, research indicates that undocumented laborers can significantly contribute to agricultural output and food security, but the corrupt cycle that keeps undocumented agricultural laborers from fully engaging in the formal sector is fueled by the socioeconomic obstacles they encounter, which include restricted access to financial services, education, and training. NGOs such as Fair-Trade Lebanon pursued to bolster the formal agricultural sector and assist farmers and laborers; nevertheless, the government's reaction has been restricted, emphasizing self-sufficiency above structural problems. The economic crisis in Lebanon will continue to disproportionately affect this vulnerable group and restrict the production and expansion of the agricultural industry in the absence of comprehensive labor laws and legislation safeguarding the rights of undocumented workers in the sector.

Tax Evasion and the Illicit Market:

Many agricultural transactions take place informally, avoiding legal channels and dodging taxes and laws since there is a dearth of control and oversight. Not only that, but tax evasion is a significant outcome of this unorganised economy. The Lebanese government loses significant amounts of money as a result of unreported agricultural transactions not being taxed. This lost income could have gone towards funding rural development projects, enhancing agricultural infrastructure, and offering subsidies³⁴. Because of the frequency of informal transactions, farmers who adhere to tax procedures have a disadvantage when compared to those who operate in the black market, creating an unequal playing field. In order to stay competitive, this gap may encourage more farmers to adopt unofficial methods. The long-term effects of this subterranean economy on Lebanon's labour market, environmental quality, and economic stability are profound.

Additionally, the quality and safety of agricultural supplies are greatly impacted by the illicit market. Fertilisers and pesticides are frequently bought from illegal sources by farmers who want to cut

³⁴ Carnegie Endowment for International Peace. "Breaking the Cycle: Toward a New Imaginary of the Food System in Lebanon." January 2024. Available at: <https://carnegieendowment.org/research/2024/01/breaking-the-cycle-toward-a-new-imaginary-of-the-food-system-in-lebanon?lang=en¢er=middle-east>

expenses³⁵. These uncontrolled goods often contain dangerous chemicals or are of inferior quality, endangering the health and the environment of both consumers and the environment. The usage of these inputs leads to biodiversity loss, water pollution, and soil deterioration. Additionally, reliance on illicit inputs thwarts initiatives to advance sustainable farming methods since farmers who purchase low-cost, unregulated supplies are less inclined to invest in quality enhancements or embrace environmentally friendly practices.

Another serious effect of the illicit market for agricultural supplies is environmental deterioration. Significant environmental harm, such as soil deterioration, water contamination, and biodiversity loss is caused by the uncontrolled use of toxic fertilisers and pesticides. It is harder to maintain crop yields when there is a decrease in the fertility of agricultural soil due to these environmental effects. As a result, in order to maintain production, farmers depend more and more on toxic inputs, starting a vicious cycle that damages the environment and jeopardises the sustainability of agriculture over the long run ³⁶.

It takes broad policy and structural changes to address the relationship between illegal agriculture and the black market. A vital first step would be to integrate small farmers into the value chain and reform land ownership rules to guarantee more equitable distribution. Workplace safety and exploitation can be decreased by strengthening legal protections and official acknowledgement for farm laborers. The funds required to adopt sustainable practices and technology innovations can also be supplied by augmenting the Ministry of Agriculture's budget. To help develop a more open and just agricultural system, international finance and cooperation can also be very useful in promoting these reforms.

To conclude, in Lebanon, unregistered agriculture is a sizable but unofficial industry that is especially common in rural areas where small-scale, family-run farms operate to avoid the high expenses and bureaucratic obstacles of formal registration. Through direct and local sales which frequently eschew official distribution channels, this sector supports local food security and rural economies by creating jobs and supplying reasonably priced goods. It encompasses a range of pursuits, from conventional farming of crops and rearing of livestock to the manufacture of artisanal foods which are sold in neighborhood markets and directly to customers. The industry promotes customs and rural lives, protecting cultural heritage in spite of these economic difficulties. However, farmers lose out on financial services, government subsidies, and technical assistance, and these unregistered items are not subject to regulatory oversight, which could result in quality and safety issues. Enhancing production, ensuring sustainability, and integrating these farmers into the formal sector could all be achieved by addressing these concerns through development programmes and supportive policies.

³⁵ Executive Magazine. "All Lebanese must do their part to help revive the agricultural sector." Available at: <https://www.executive-magazine.com/industry-agriculture/all-lebanese-must-do-their-part-to-help-revive-the-agricultural-sector>

³⁶ L'Orient Today. "MP Bou Faour calls on gov. to tackle trafficking of toxic pesticides." August 23, 2023. Available at: <https://today.lorientlejour.com/article/1347174/mp-bou-faour-calls-on-gov-to-tackle-trafficking-of-toxic-pesticides.html>

2.5. Shadow Financial Services and Informal Lending

Lebanon's failed financial system has been conducive to multiple ramifications. The burden of having a failed financial system in this global economy is hitting Lebanon and the Lebanese hard, and in turn, locals have explored a multitude of alternatives that do not particularly relate to mainstream financial services.

Shadow financial services and informal lenders have grown exponentially in recent years due to rising demand, which poses a serious security and safety threat to unsuspecting individuals. The main issue with the latter is the lack of regulatory oversight from a trusted administration or group, and although Lebanon restricts much of these activities and services, it still falls short as corruption and lawlessness rule in the nation. There have been multiple instances where unregulated lenders established their own shadow companies to offer an alternative to the distrustful Lebanese banks, and individuals fully trusted them based on little to no merit but only because it is often the only choice. This led to calamities for families and people in general, whose money was later stolen or embezzled; because of Lebanon's judicial system as well as the way authorities operate, perpetrators are hardly, if ever, caught.

Additionally, loans are rarely ever tasked with good risk management policies, unlike banks who have certain standards and who deliberate with regulators on appropriate interest rates, credit market size, and other issues. The latter renders informal lenders to be a foul alternative to regular financial services as it primarily benefits the lender with significant profit margins. However, the issue doesn't only rest with the security of people's finances but also with the detriment of the economy. Shadow financial services can be harmful to the economy, as they are diversified to include housing, personal, or business loans, any mismanagement of housing loans can be conducive to a crisis in the real estate sector and later in the economy as a whole³⁷ Because if shadow banking isn't regulated, it poses many risks. Primarily, it will affect the size of lending in markets, which would further fluctuate the economic cycle. On the other hand, a prospering Lebanese economy can also be harmed by an increased supply of loans from shadow banks as individuals will look to increase their purchasing power, this will inevitably lead to an increase of liquidity in the market which will increase the prices of products and assets. In current times, shadow banking poses a threat to liquidity in the market as it reduces the supply of lending and decreases demand for assets³⁸.

Furthermore, shadow banking in Lebanon takes on many forms, even ones that seem legitimate. For instance, Al Qard Al Hassan Association is a financial institution established by Hezbollah in 1982 during the twilight hours of the Israeli invasion of Lebanon; it essentially acts as a bank without being registered as one. It allegedly was procured to mend the socioeconomic devastation that had befallen the country, though allegations of money laundering and illicit activities have not been slight. It is claimed by many that Hezbollah uses Al Qard Al Hassan as a front to launder its money

³⁷ Now Lebanon. "The Legal and Financial Implications of Al Qard Al Hassan." May 30, 2023. Available at: <https://nowlebanon.com/the-legal-and-financial-implications-of-al-qard-al-hassan/>

³⁸ Business News. "Shadow Banking is Still Small in Lebanon." Available at: <https://www.businessnews.com.lb/cms/Story/StoryDetails/4676/Shadow-banking-is-still-small-in-Lebanon>

as well as a means to deal with its finances since any institution or bank caught operating with Hezbollah is automatically and immediately blacklisted, so they made their own. Al Qard Al Hassan has existed for decades though it hasn't been as notable as after the economic crisis that struck Lebanon in 2019 when the banking sector collapsed. The association's core activity is to grant its clientele loans in US dollars in exchange for the equivalent in value gold guarantees. Research has been sanctioned to determine whether Al Qard Al Hassan truly functions as a typical financial institution under the laws of the Lebanese state as well as the legal system of BDL (Banque du Liban) and the outcome was as expected. The law regulates the monetary system under the control of BDL and currently, Al Qard Al Hassan exists outside of the legal system it is supposed to subscribe to in order to operate as a financial institution/bank³⁹. This means that the association is in clear violation of the role of BDL to preserve and regulate the national economy, in preserving the Lebanese currency and the general welfare of the banking sector. Al Qard Al Hassan has also refrained from obtaining official authentication from BDL, including but not limited to its transactions in the clearance department and taking the necessary measures to protect the gold mortgage of the borrowers. According to article 178 of the legal system of BDL, financial institutions need to be registered as a joint stock company and not a non-governmental organization or association. As per to article 181, it is prohibited to declare that an institution is a financial one unless its conditions are completely met and BDL grants it a license to operate and supervises it. Indeed, Al Qard Al Hassan doesn't follow any law of the system since it certainly refrains from obtaining clearance to transact funds, deposit reserve funds, and implement safety measures to ensure that the gold mortgage of the borrowers is protected. The development of such an organization raises fears of lawlessness and disaster capitalism, which essentially exacerbates an already failing capitalist system through its bandaid-to-bullet-hole approach to ease economic distress. Finally, it puts the Lebanese financial and banking system at an even bigger disadvantage not only because of the risks the clients face, but also because it can undermine the Lebanese national monetary system and jeopardize the future of a salubrious economy.

2.6. Unregistered Artisanal and Handicraft Production

Lebanon boasts a rich tradition of artisanal and handicraft production, though much of it remains unregistered and operates informally⁴⁰. Accurate data on the size and scope of this sector is lacking, with the last comprehensive mapping effort dating back to 2000, as reported by the Ministry of Social Affairs⁴¹. Only about 500 craftsmen are registered with the Syndicate of Craftsmen, with just 90 active members, while the actual number of informal artisans is believed to be much higher. This informal status limits access to financing, public services, and commercial partnerships, hindering

³⁹ Executive Magazine. "Traditional Handicrafts in Lebanon: A Special Report." Available at: <https://www.executive-magazine.com/special-report/traditional-handicrafts-in-lebanon>

⁴⁰ Nahnoo. "Lebanese Craftsmanship: Insights for Policymaking." Available at: <https://nahnoo.org/publications/lebanese-craftsmanship-insights-for-policymaking/>

⁴¹ The National News. "The Struggle to Keep Lebanon's Traditional Arts Alive." Available at: <https://www.thenationalnews.com/arts/the-struggle-to-keep-lebanon-s-traditional-arts-alive-1.587026>

growth⁴². The absence of a coherent policy framework, institutional support, and a conducive business environment prevents the informal sector from achieving its full economic potential⁴³. Consequently, unregistered artisans miss out on production support, design assistance, marketing platforms, and export facilitation provided by organizations like UNIDO and L'Artisan du Liban to the formal sector⁴⁴. Additionally, child labor has been reported in unregistered artisanal establishments, such as metalworks and handicrafts, though official data is limited. In summary, while Lebanon's artisanal heritage is rich, a significant portion remains unregistered and informal, lacking access to resources that could enhance productivity, incomes, and preservation efforts⁴⁵.

Unregistered artisanal and handicraft businesses in Lebanon face several negative effects and limitations compared to registered entities. Without legal recognition and protection, unregistered businesses cannot enter into formal contracts, own property, or take legal action in their own name, and their intellectual property rights, such as trademarks, cannot be officially registered and protected. Limited access to financing and growth opportunities is another major issue, as banks and financial institutions are reluctant to provide loans to unregistered businesses due to their lack of legal standing and higher perceived risk⁴⁶. This also hinders their ability to scale operations, hire employees formally, and access government support programs or incentives. Additionally, unregistered businesses face challenges in importing and exporting, as customs authorities require legal registration to process transactions and paperwork. Tax implications and penalties further complicate matters, as income from unregistered businesses is still subject to personal income tax without the ability to claim business expenses or deductions, and owners risk fines for tax evasion⁴⁷. Moreover, owners have unlimited personal liability for debts and obligations, and larger companies may be hesitant to form commercial partnerships with unregistered suppliers due to their lack of legal standing. In essence, while avoiding registration costs, unregistered artisanal businesses in Lebanon lack legal protections and face significant constraints in accessing financing, markets, and growth opportunities compared to properly registered entities.

⁴² Lexology. "Business Regulations in Lebanon." Available at: <https://www.lexology.com/library/detail.aspx?g=b23da41c-00b2-47dd-8204-97c7b1879005>

⁴³ PwC. "Lebanon Corporate - Other Issues." Worldwide Tax Summaries. Available at: <https://taxsummaries.pwc.com/lebanon/corporate/other-issues>

⁴⁴ World Bank Blogs. "Business Regulations in Lebanon: Where Are We, Where Do We Go Now?" Available at: <https://blogs.worldbank.org/en/arabvoices/business-regulations-lebanon-where-are-we-where-do-we-go-now>

⁴⁵ UN Women. "Beirut Blast WOSME EcoSystem." October 2020. Available at: <https://arabstates.unwomen.org/sites/default/files/Field%20Office%20Arab%20States/Attachments/Publications/2020/10/Beirut%20Blast%20WOSME%20EcoSystemFinal%2020201027.pdf>

⁴⁶ The961. "Handicrafts: Lebanese Artistic Heritage." Available at: <https://www.the961.com/handicrafts-lebanese-artistic-heritage/>

⁴⁷ International Labour Organization (ILO). "The Impact of the Syrian Refugee Crisis on the Labour Market in Lebanon." ILO Regional Office for the Arab States.

3. Economic Impact of Unregistered Businesses

For a business to be registered, many procedures are required, such as registering with government agencies, acquiring certain licenses, and ensuring all legal aspects of the business are being followed. This procedure can take weeks and even months, depending on the country. In Lebanon, as we know, governmental procedures at the moment are suspended, making such an affair nearly impossible. This is why, today, most new businesses that are opening are unregistered. Around us, street vendors in Sidon or Tripoli or even Beirut are mostly unregistered, and the same goes for most transportation services like the taxis and even handymen and construction workers. This illustrates the degree of governmental inaction, with many laborers and workers in Lebanon remaining unregistered.⁴⁸

Still, registering a business offers a wide variety of benefits. Those include legal protection for the owners who would be able to submit legal contracts, easily acquire loans and credits from banks, strengthen relationships with customers and future potential partners, and safely enter into business partnerships. Most importantly, registered businesses are heavily backed by the government, providing them with tax benefits, subsidies, and grants. We can see where the problem is: since the government is barely functional, all the benefits that might entice an entrepreneur to register their business are non-existent, thus making it seem very unnecessary and a waste of time and money.

Nevertheless, unregistered businesses, also known as informal businesses, are businesses that are yet to be legally recognized by the government. Unregistered businesses take on huge risks and a lot of disadvantages. For example, in an unregistered business, the owner has very limited access to capital, a rocky relationship with the customers who cannot really sue the company and potential partners who are not encouraged to go into business, and risks getting fined. This results in unregistered businesses facing difficulties in expanding. Despite all those negatives cited, there are still reasons that seduce owners into keeping their businesses unregistered, including avoiding costs, taxes, legal work, and difficulties that they may face while registering a business. This is the case for most Lebanese based entrepreneurships newly opening.

Moreover, since the downfall of the Lebanese economy in 2019, the chances that vendors would keep their business unregistered exponentially increased. For the past 5 years, the economy has been frozen and the GDP declining, reflecting the severe crisis Lebanon has been going through.⁴⁹

Those unregistered businesses, even if not legally recognized by the government, play a key role in the Lebanese economy. They have a positive impact, creating more employment opportunities, thus decreasing unemployment rates and giving a chance to those lacking any education or skills to integrate into the labor force. They also make more room for entrepreneurship, as individuals can easily freelance their business without going through the hassle of registration, enriching the market. This also translates into the market being able to answer to the consumers needs quickly. In other

⁴⁸ The Policy Initiative. "Blurred Lines: Lebanon's Mutating Workforce." January 17, 2024.

⁴⁹ International Monetary Fund (IMF). "Lebanon: Technical Assistance Report-Tax and Customs Administration." December 5, 2023.

words, certain products that are too expensive, are very hard to find, or are trendy can appear in the newly flexible market. As such, the entry of new businesses is facilitated, further stimulating the economy.

However, they also offer some negative impacts: unregistered businesses make more room for vendors to evade taxes, which quickly translates into huge revenue losses for the government. Since the government collects taxes to be able to offer public services such as public infrastructures, hospitals, and schools, tax evasion limits the government's capacity to provide services. Informal vendors might also escape following safety rules like health regulations set out by the government, putting the consumers at risk. They can also avoid following market regulations such as floor price or ceiling price, thus playing by their own rules and setting their own prices without considering the market.⁵⁰

All these negative impacts reduce any chance for the Lebanese economy to fully boost. Considering most new businesses are unregistered and unmonitored, it is also impossible to get real data on how much the economy is growing.⁵¹

⁵⁰ Mercy Corps. "Beirut MSME Rapid Needs Assessment Report." September 2020.

⁵¹ European Investment Bank. "Unlocking Sustainable Private Sector Growth in the Middle East and North Africa." June 2022.

4. Legal and Regulatory Challenges

Lebanon possesses the highest number of refugees per capita, at around 1 refugee for every 3 citizens. While it is estimated that around 2 million Syrian refugees are in Lebanon, only 938,531 are registered, leading to absolute clandestine behavior within refugee camps⁵². It is also worth mentioning the other nationalities under the umbrella of refugees, like Sudanese, Ethiopian, Iraqi, and Palestinian.

Still, the authorities are not responsive to the refugee crisis, as Lebanon has not ratified the 1951 UN convention relating to the Status of Refugees. Moreover, due to the dark period of the Lebanese war, the Lebanese administration decided to abstain from creating formal Syrian refugee camps.

Around 92% of Syrian refugees operate without papers, leading to fallacies of unemployment and constant work in insecure places that do not guarantee their safety. Without contracts or papers, they are most likely to work within construction, agriculture, and environment. While they significantly contribute to the actual economic activities of the country, the status of unregistered businesses can create some chaos, especially in terms of sustainable development⁵³.

The excessive labor supply in the country encouraged the growth of the informal economy, as more and more laborers are willing to work within this poor standard of living. The harsh regulations and limitations did not limit the Syrian entrepreneurship mind, creating businesses that are not legally recognized. The law forced them to evolve that way, and the weak administration and oversight gave them null obstacles for their entrepreneurship mind. Despite challenges, there are examples of successful businesses run by Syrian refugees. International Aid Organizations provide support to Syrian refugees, including vocational training and entrepreneurship opportunities, aiming to reduce dependency on aid and foster economic self-sufficiency.

In summary, Syrian refugees in Lebanon significantly contribute to the informal economy, creating unregistered businesses despite numerous challenges. Their entrepreneurial activities are crucial for their survival and economic integration, though more support and research are needed to fully understand and harness their potential. Below is a list of successful unregistered shops and their endeavors.

⁵² United Nations High Commissioner for Refugees (UNHCR). "Syria Regional Refugee Response: Lebanon." UNHCR Operational Data Portal.

⁵³ International Labour Organization (ILO). "The Impact of the Syrian Refugee Crisis on the Labour Market in Lebanon." ILO Regional Office for the Arab States.

TABLE 1. DESCRIPTION AND DEMOGRAPHIC CHARACTERISTICS OF CASE STUDIES

Case #	Area of origin - Syria	Gender	Age group	Family status	Year started business	Business type	Business location in Lebanon	Number of employees	Future plans
A1	Idlib	Male	25-30	Married	2012	Houseware shop	Area 1	1	Not specified
A2	Aleppo	Male	50+	Married	Not specified	1 dollar shop	Area 1	1	Not specified
A3	Aleppo	Male	27	Single	May 2018	Clothing shop	Area 1	1	Wants to expand his business
A4	Al Raqqa	Male	25-30	Single	2018	Tailor	Area 1	None	Not specified
A5	Al Raqqa	Male	25-30	Married	2016	Cellphone shop	Area 1	None	Wants to go back to Syria and complete his education
A6	Aleppo	Male	30+	Married	May 2018	Clothing shop	Area 1	1	Wants to go back to Aleppo when the war ends
A7	Daraa	Female	40+	Divorced	2015	Clothing shop	Area 1	1	Wants to buy more products
B1	Aleppo	Male	33	Married	2017	Barber shop	Area 2	2	Does not think of going back to Syria
B2	Aleppo	Female	45	Married	Not specified	Perfume shop	Area 2	None	Wants to expand
B3	Al Raqqa	Male	25-30	Single	2011	Clothing store	Area 2	1	Wants to finish his studies
B4	Aleppo	Male	25-30	Married	2015	Water services	Area 2	2	Wants to expand
C1	Aleppo	Female	25-30	Married	2015	Tailor	Area 3	1	Not specified
C2	Al Harika	Male	25-30	Married	NA	Clothing shop	Area 3	2	Wants to go back to Syria
C3	Not specified	Female		Married	NA	1 dollar shop	Area 3	None	Not specified
C4	Idlib	Male	30+	Married	NA	Clothing shop	Area 3	None	Not specified
C5	Qalamoun	Male	25-30	Married	2017	Car wash	Area 3	2	Does not want to go back to Syria
C6	Damascus	Female	40+	Married	2017	Tailor	Area 3	1	Wants to buy new machines
C7	Hama	Male	50+	Married	2012	Grocery store	Area 3	None	Not specified
C8	Homs	Male	30+	Married	2015	Clothing store	Area 3	None	Wants to go back to Syria
C9	Homs	Male	30+	Married	2015	Clothing store	Area 3	1	Wants to get more products
C10	Aleppo	Male	2-30	Married	2012	1 dollar shop	Area 3	1	Not specified

Case #	Area of origin - Syria	Gender	Age group	Family status	Year started business	Business type	Business location in Lebanon	Number of employees	Future plans
C11	Damascus	Male	25-30	Married	2017	1 dollar shop	Area 3	1	Wants to travel to complete his studies
C12	Aleppo	Male	50	Married	Not specified	Supermarket	Area 3	1	Not specified
C13	Zabadani	Male	25-30	Single	2017	Hairdresser	Area 3	2	Wants to keep running the salon
C14	Damascus	Female	30+	Married	2011-2012	Hairdresser	Area 3	3	Wants to take a loan and expand
C15	Daraa	Male	30+	Married	2012	Minimarket	Area 3	None	Goes back and forth between Lebanon and Syria
D1	Damascus	Female	40+	Married	2015	Tailor	Area 3	None	Wants to see if she can re-open her shop
E1	Homs	Male	22	Married	2013	Dairy products	Area 4	1	Wants to open on his own without a partner
E2	Homs	Male	21	Single	2016	Cheese workshop	Area 4	1	Stated that he is leaving end of 2018
E3	Homs	Male	30+	Married	2014	Small coffee shop	Area 4	None	Not specified
E4	Homs	Male	30+	Married	2014	Small bakery	Area 4	None	Not specified
E5	Qusayr	Male	26	Single	2015	Supermarket	Area 4	None	Wants to finish studying and expand his supermarket
F1	Homs	Male	28	Single	2016	Pastry shop	Area 4	2	Does not wish to go back
F2	Homs	Male	50+	Married	2014	Restaurant	Area 4	1	Wants to go back to Syria when the war ends
F3	Hama	Male	25-30	Single	2013	Arguileh shop	Area 4	2	Looking for scholarships to continue his studies
F4	Homs	Male	50+	Married	2015	Bakery	Area 4	1	Wants to open another bakery
F5	Bab Ammar	Male	40+	Married	Late 2015	Bakery	Area 4	4	Wants to seek resettlement in Australia

Figure 2.1: Description and Demographic Characteristics of Syrian Unregistered Businesses in Lebanon, Issam Fares Institute of the Public Policy and International Affairs, 2016

5. Strategies for Formalization and Policy Recommendations

After an interview with Me. Joseph Nasrallah - one of the Founding Partners of the renowned firm *HNS Legal* - and his colleague Me. Theodore Makary, many aspects concerning unregistered businesses came to light.

Types of Unregistered Businesses and Their Common Locations

Concerning the types of unregistered businesses in Lebanon, they usually come in the form of small to medium enterprises in both services and products companies. They are prevalent in all sectors, but especially in the businesses whose service provision requires one person (plumber, electrician, hand craft...). Newly emerging sectors such as online trading and shopping are also saturated with unregistered companies. "Any business which does not involve much investment or investor/shareholder relations finds it easier to adopt this route," affirmed Me. Nasrallah. Moreover, they are estimated to be more common in regions further from Beirut. This is attributed to the wealth in the area but more strongly to the presence of the state and governmental framework, which are relatively applicable in the capital.

Primary Reasons for the Lack of Registration

As for the reasons for which these individuals or entities choose to operate businesses without registering them, multiple were mentioned. Firstly, the public lacks knowledge and education about the legal framework and business registration process. In addition, there is a cultural tendency of avoiding registration and a redundancy of sharing information with the state. Unfortunately, many company owners aim to avoid any costly or complicated governmental processes which often include corruption and additional fees. Finally, inadequate services provided by the government (healthcare, education, basic needs...) have left many believing that they do not owe the state any taxes.

Potential Economic Impacts

The prevalence of unregistered businesses in Lebanon significantly impacts the state's revenue due to unpaid tax, undeclared revenues, custom fees, etc. Since these companies operate on a cash basis, the risk of money laundering and tax evasion is also increased. Their presence does not only result in a substantial loss of revenue to the state treasury, but also a decline in the effectiveness of government entities and the public sector. In other words, the loss of trust in the state creates a wider gap between the thriving private and the collapsing public sectors. "These unregistered businesses also produce an uneven competitive landscape for registered businesses and a parallel black market which threatens the legal market of the state," elaborated Me. Nasrallah. Since they evade taxes and do not adhere to regulations, these unregistered businesses offer more competitive prices, creating a disadvantage for registered counterparts and undermining fair competition. They affect the government, other registered entities, and even individuals, as the lack of monitoring over services and products poses many risks. A common example is the food and healthcare industries, where expired products and items can contribute to public health issues.

Penalties and Challenges of Detecting Unregistered Businesses

The penalties for running an unregistered business in Lebanon depend on the breach and authority enforcement, ranging from notices to legalize, to fines, to temporary closures until compliance is achieved. Although the government acknowledges the dangers of unregistered companies and has created legal and regulatory consequences for their operation, there is a lack of enforcement. The authorities' limited resources and manpower have made the identification of unregistered businesses a major challenge. The status of a "collapsed state" renders it more difficult to have an oversight of these businesses and enforce regulations. The government is failing to apply existing laws and to modernize its system by issuing new regulations for emerging business areas. "Minimal action has been taken, with one notable initiative being the 2022 budget, where the state exempted newly formed companies from paying incorporation fees," stated Me. Nasrallah. However, the lack of communication between the government and the public has left the latter unaware of these exemptions, limiting the effectiveness of such attempts.

Solutions to the Crisis

Me. Nasrallah and Me. Makary proposed many solutions, including spreading awareness about the importance of business registration and legal protection through campaigns. Moreover, incentivizing the process can promote business registration and regulation compliance. "The ultimate solution would be the implementation of E-Government, which can link everything from the Ministry of Health to the Ministry of Finance to the commercial register," suggested Me. Makary, encouraging a more organized system. With this centralized platform, individuals wouldn't have to endure the trouble of visiting each government body for documents, making the process simpler, faster, and more efficient. An E-Government would have the advantage of streamlining the process and minimizing the interaction with corrupt officials. Furthermore, revisiting several laws such as banking secrecy and tax incentives - which have encouraged foreign investment over the past few years - can promote the business registration process. Finally, they advise issuing more specific and targeted policies to cover areas such as AI, online businesses, and even the banking sector. These initiatives can only be successful if the state avoids selective enforcement and treats all citizens equally. Although easier said than done, the corruption of the government must change for its credibility to take a turn.

Another interview with an anonymous tax advisor asserted the previous while providing a different perspective concerning unregistered businesses.

The Current Market

Over the past few years, and especially after the financial crisis in 2019, there has been a rise in cash businesses in Lebanon. This shift has resulted in the lack of declaration from registered companies as well as the increasing presence of the black market and unregistered businesses. The current market in Lebanon is saturated with different types of businesses, including those which are compliant and by the book, those that are registered but keep some information undeclared, and those which are completely unregistered.

The Rise of Unregistered Businesses

Recently, unregistered businesses have been prevalent in most sectors, excluding regulated businesses like insurance and financial services. These companies are especially common in the retail industry but can also be found within the sectors like healthcare. Demographically, unregistered businesses are more common outside Beirut and Mount Lebanon. This is mostly attributed to the presence of the Ministry of Finance across the governorates. Moreover, tax authorities tend to audit the large taxpayers unit, which are mostly found in these two areas.

Primary Reasons for the Lack of Registration

A primary reason for the prevalence of unregistered businesses is the lack of awareness. For example, most freelancers who decide to start online shopping businesses aren't aware that this operation is taxable and must be registered. Neither the Ministry of Finance nor universities teach tax, meaning that the public is not aware. Furthermore, individuals and entities choose to withhold information or remain unregistered because of the cultural tendency to avoid paying taxes. The crisis amplified this inclination, as the government's mismanagement of the treasury resulted in the loss of the public's money and its distrust in officials' usage of taxes. Citizens believe that taxes go to government officials rather than benefitting their communities. "Every service is paid for twice," declared our anonymous source, explaining her statement through the deficient *Électricité du Liban*. Because paying for this service is not enough to enjoy proper electricity, many citizens invest in generators and solar panels. Finally, the decision to register a business comes with a complicated and costly process as well as tax assessments with additional fees to be paid. The corruption in Lebanon has driven many registered business owners into second guessing their decision to legalize their business, driving them to leave the country. Because the government does not enforce its laws on illegal companies and is unsupportive of those who go by the book, unregistered businesses live on. However, according to our source, the minimum wage and labor age laws do not necessarily play a role in the decision to keep businesses unregistered. "Even registered companies document different salaries than those they provide and work with underage children who they do not declare on the register," she expressed.

The Consequences of the Rise of Unregistered Businesses

All the events that have taken place, from the government's mismanagement of the treasury to the citizens' distrust and appropriation of cash have resulted in unregistered and noncompliant businesses. This hasn't come without consequences, as the IMF, the World Bank, the Central bank, and foreign banks have become increasingly doubtful of the country's money laundering. Lebanon is set to be gray listed, with its corruption and transparency rankings decreasing and its economy continually going backwards. Everyone, from the government to the competitors to the citizens are impacted by the current business operations. Our source explained this through an example, focusing on the downfall of the competitive landscape in Lebanon and the effect on the tax revenues.

A compliant and registered business which pays customs and taxes would have to sell at higher prices when importing home appliances to Lebanon. On the other hand, an unregistered business which smuggles those same products into Lebanon can sell them for lower prices. After a while, the government would ask the registered company for additional taxes, encouraging it to stop complying or even move abroad, leaving its illegal and noncompliant counterpart to monopolize these goods.

Of course, tax authorities wouldn't gain anything as the company wouldn't pay the right VAT or customs amount and wouldn't register employees or declare profit correctly.

This has been the case in many sectors, encouraging foreign investments to downsize, liquidize, and leave the country. All in all, the government loses tax revenues, the registered businesses suffer, and the economy is negatively impacted.

Penalties and Challenges of Detecting Unregistered Businesses

Regulatory and financial consequences for businesses found operating without registration in Lebanon exist, with each type of activity having a specific penalty. For instance, a simple noncompliance would require a tax. However, the government acknowledges that they are to blame for their limited detection systems and untimely enforcement, therefore reducing the fees by 70-80%. In other cases where money laundering is involved, criminal charges are considered. Of course, there are other laws such as movable capital tax on the money that is outside Lebanon. This tax law states that every citizen who has accounts outside of Lebanon must pay 10% on them. When it comes to applying these laws, the tax authorities do not have enough resources to audit unregistered businesses. "They have lost their workforce, as the competent workers left the ministry or the country because of their low salary," explains the source. As stated above, the Ministry of Finance solely assesses and penalizes the businesses which are registered, compliant, and within its reach. The crisis has halted exchanges between Lebanon and foreign banks, preventing officials from keeping track of citizens with money abroad. Furthermore, Lebanon lacks systems such as those found in the United States, where banking secrecy is not permitted, everything is linked, and the IRS can easily match individuals to the right tax obligations. Even corruption comes into play, as tax authorities may be aware of unregistered businesses but are paid under the table, hence discarding the situation.

Nevertheless, recent initiatives have shown some potential. Firstly, the 2024 budget law asked citizens to declare what they haven't since 2017 to be exempted from penalties. Unfortunately, the lack of trust in the government and the fear of being caught in the system have stopped many from adhering to this measure. In addition, Lebanon has tried to reconcile what is imported through the customs authority with what is declared. The tool *System Noor* can capture what was imported by a company to match them to the business's records. However, there are easy ways to get around high custom fees, making this measure "basic and primitive." At the end of the day, authorities' limited workforce, Lebanon's damaged relations abroad, the shortage of proper electronic infrastructure, and the lack of links between the different ministries have facilitated noncompliance, corruption, and missed revenues.

Recommended Strategies for a Fair System

Some of the solutions our anonymous source proposed focused on overcoming the deficiencies of the government. For example, she advised enforcing the collection of undeclared taxes rather than imposing additional taxes to the registered businesses. Although banks and audit firms are probably aware of many unregistered companies, they do not have the right to expose these companies. Therefore, she suggests implementing systems and infrastructure within tax authorities to facilitate legal penalizing. Moreover, increasing the advantages of registration and adopting digital tools could

change the game. Digital platforms could quicken the process and clear up the already existing checklist for citizens while benefiting the tax authorities with easier detection of unregistered businesses. Despite being easier said than done, she acknowledges that “trust in the system, financing sector, and banks must be established for individuals to register and declare properly.” There is a long way to go before reaching a fair and legal private sector, but these steps could be of assistance.

Conclusion

The pervasive narrative of unregistered businesses in Lebanon is one of survival and resilience against a backdrop of institutional decay and economic turmoil. From the agrarian markets of the Ottoman era to the thriving informal retail and shadow financial services of today, the shadow economy has become both a necessity and a profound threat. It provides a crucial safety net for countless citizens while simultaneously draining state resources, compromising public health through illicit pharmaceuticals, and fostering a lawless environment where corruption thrives. The failure of formal governance has unwittingly legitimized an alternative economic reality, where trust is placed in informal networks rather than established institutions. Yet, this informality is a slippery slope. While we have explored the dangerous trade in black market medications, the most potent and destructive facet of this unregulated landscape remains unseen. It is a market where the boundaries of law and morality are entirely erased, fueled by the same desperation and systemic failure. As the formal economy contracts, the ultimate, most profitable, and most violently controlled enterprise emerges from the shadows. The question remains: how deep does the rabbit hole of informality go when the very survival of the state is compromised, and what happens when the next chapter opens onto the ruthless mechanics of the Drug Market?