Microfinance in Algeria, Tunisia, and Lebanon

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MICROFINANCE IN ALGERIA, TUNISIA, AND LEBANON

by

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ABSTRACT

In theory, microfinance is a system of decentralized bankers lending to the poor in order to improve economic systems and emphasize entrepreneurial development. Specifically, within the Middle East and North Africa region, the poor economic performances have been closely linked to poor savings and investments. This thesis explores the various factors which affect the microfinance sector in three countries in the Middle East and North Africa region: Algeria, Tunisia, and Lebanon. Algeria, Tunisia, and Lebanon, have similar cultural and political histories that could potentially affect the development of microfinance within the state. Microfinance institutes aim at economic improvements, but the success of microfinance is contingent on different factors in disparate countries. For this reason, focusing on these particular former French countries make it possible to assess if the history and government policies of a country have an impact on the extent to which microfinance is incorporated in the alleviation of poverty.

DEDICATION

This thesis is dedicated to the victims of poverty throughout the developing world: may the efforts to improve the microfinance industry continue to grow in order to better the world as a whole.

In addition, to my parents, Janet and John Chamberlain: it's for your love, sacrifices and efforts that I have come this far.

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INTRODUCTION

The purpose of this research is to analyze the effect of political and social history on the microfinance sector in the former French colonies of the Middle East and North Africa (MENA) region, specifically: Algeria, Lebanon, and Tunisia. The study will emphasize the way in which the history of a country- including, in particular, its political and social history- plays a strong role in determining the fate of microfinance systems in that country. Three former French colonies that share similar cultural and political histories will be examined. The overall affect that microfinance organizations in those three countries have had on poverty alleviation, and the specific components that influence the role of microfinance such as history, geographic characteristics, culture, and domestic policies will be highlighted. In theory, microfinance institutions aim at economic improvements, but the success of microfinance is contingent on different factors in disparate countries. For this reason, focusing on these particular former French countries make it possible to assess if the history and government policies of a country have an impact on the extent to which microfinance is incorporated in the alleviation of poverty.

Literature Review

The concept of microfinance has been studied extensively since the beginning of the Grameen Bank in 1983. In theory, microfinance is a system of decentralized bankers lending to the poor in order to improve economic systems and emphasize entrepreneurial development. The idea originated with Mohammed Yunus in Bangladesh. Since then, research has been done on the success and failure of microfinance.

In 1990, Maryke Dessing (1990) wrote about the microfinance sector and its role in Sub-Saharan Africa. Dessing described microfinance as a “bottom-up/direct approach”.[12] In other words, Dessing states that microfinance is linked to an individual approach, which will help the poor in entrepreneurial advancements. Dessing explained the importance of credit in undeveloped countries, especially ones in Africa. Since there are certain characteristics that affect development in Africa, Dessing states that credit is essential for economic growth.[3]

In their article, "Grameen Bank: Performance and Sustainability," Zahed Khan, Baqui Kalily, and Shahidur Khandker (1995) emphasize that Yunus believed that everyone should have the opportunity to obtain credit in order to create opportunities to escape poverty.[4] Even today, Muhammed Yunus strongly believes that credit is the main factor in modern economies and it is essentially the only way to obtain financial stability.[5] In his book, Yunus states, that it is essential to provide opportunities to the poor. He writes, "Time and time again I have seen that the poor are poor not because they are lazy or untrained or illiterate but because they cannot keep the genuine returns on their labor. Self-employment may be the only solution for such people".[6] Yunus states, "Micro credit views each person as a potential entrepreneur and turns on the tiny economic engines of a rejected portion of society".[7] This approach can lead to an immense socioeconomic change that can lead to macroeconomic developments.

In his book, *Fighting Poverty with Microcredit*, Shahidir Khandker (1998), provides the first insight into the specific social mechanisms that microfinance institutes apply, such as group-based lending. Khandker provides evidence that microfinance is effective in reducing poverty by giving individuals access to resources to grow independently as entrepreneurs.[8] Khandker states that when poverty is the result of unemployment, it is essential to create new jobs to reduce poverty. On the other hand, when poverty stems from low income and productivity, it is important to invest in physical capital.[9] This is where the concept of microfinance is effective in providing the essentials that the poor lack. Easily accessible credit from MFIs will produce self-employment for the poor, providing a realistic price that the individuals will be able to afford. This book also delves into the specific reasons that microfinance has failed in areas, and why it is critical to have the correct microfinance plan. Khandker is the first to analyze microfinance's success in poverty reduction. However, he doesn't mention the specifics characteristics of countries and how microfinance varies due to those characteristics.

In their article, "Analysis of the Effects of Microfinance on Poverty Reduction", Jordan Morduch and Barbara Haley (2002) evaluate the positive impact of microfinance on poverty alleviation in relation to six out of the seven Millenium Goals. Since the beginning of the Grameen Bank, the idea of microfinance has been researched as a potential to help in sustainable development all over the world. Morduch states, "Empirical indications are that the poorest can benefit from microfinance from both an economic and social well-being point-of-view".[10] In "Analysis of the Effects of Microfinance on Poverty Reduction", Morduch and Haley explain how microfinance has proven to be "an effective and powerful tool for poverty reduction".[11] Thus, Morduch states, "In particular, there is overwhelming evidence substantiating a beneficial effect on income smoothing and increases to income. The evidence that does exist is largely positive".[12] They make it clear that the empirical evidence of an increase in income, and a reduction of economic vulnerability display the influential impact of microfinance on poverty alleviation. Haley and Morduch assert that, "Microfinance has the potential to have an immediate impact on a wide range of poverty reduction targets: income, health, nutrition, and education".[13] Morduch's study has essential facts that aid in understanding the significance of microfinance and its positive impacts, but further research on specific countries could potentially help in grasping the factors that contribute to the success of microfinance.

Specifically within Africa, The United Nations paper, “Microfinance in Africa: Combining the Best Practices of Traditional and Modern Microfinance Approaches Towards Poverty Eradication,” focuses solely on the aspects of microfinance that are influential for economic development. A variety of benefits that come from microfinance in Africa are presented in this paper. By addressing the issue of material poverty, microfinance can offer the income to attain the certain goods that are essential in everyday life, but are unavailable to the poor.[14] The poor economic performance of Africa has been closely linked to its poor savings and investments over the years; over the past three decades Africa’s savings performance has been decreasing. Ultimately, two crucial reasons for promoting public savings in Africa are presented. First, economic growth within a country is based significantly on levels of capital accumulation. Thus, microfinance will contribute adequate savings services in Africa, moving towards poverty reduction. Secondly, microfinance would create new opportunities for capital, which in return would increase investments, resulting in consumption evening out, and ultimately creating an access to emergency needs for liquidity. In relation to microfinance in Africa, the UN paper includes empirical evidence that shows “a significant segment of the poor are savers and that the microfinance institutions could support them by looking after their savings in a secure manner and by helping them accumulate interests on their deposits. The poor will be able to deal with emergency and to make significant investment expenditures”.[15] Ultimately, the message presented is that microfinance can empower the poor, giving them the opportunity to ascend from the everlasting cycle of poverty. This paper shows that there are reasons that hinder the performance of microfinance, but research still needs to be done to evaluate the role that history and policies have on microfinance.

Clearly, microfinance is not a new concept and has been talked about in association with poverty alleviation, but the factors that affect microfinance need to be addressed. Peter Feuliherade (2013), specifically focuses on microfinance in the MENA region in his article, “Microfinance- in MENA- an Untapped Market”. Feuilherade (2013) presents a statistic from the World Bank that shows, “microcredit accounts for just 0.2% of the MENA region's gross domestic product, and lending by microfinance providers reaches only 1.8% of the adult population, half the rate of South Asia, Latin America and the Caribbean”.[16] Microfinance programs in MENA have been around since the 1990s, but haven’t increased in recent years. Feuilherade observes that the MENA region continues to have the least developed microfinance market worldwide.[17] This is a major problem, since the concept of microfinance has been proven to be successful in other areas, so the question of why this specific region has the least developed microfinance market in the world needs to be addressed. Feuilherade states, “the reasons include poor regulation and perceived weak risk management, exacerbated by recent political events and social upheaval. Many experts believe that insufficient supervision and regulation have held back the growth of microfinance in MENA countries”.[18] Peter McConaghy, a microfinance analyst, states that the lack of regulation in support of MFIs is the main reason for the significantly low presence of MFIs in the region. Feuilherade ensures that there are different challenges that each region faces, which is a main factor that affects the MFI’s contribution.[19]

Feuilherade introduces the idea that different factors influence microfinance, but he lists only a few reasons that affect the MENA region in general. In 2004, Jean-Claude Berthelemy wrote “Have Middle East and North Africa Countries Achieved a Critical Mass of Change in their Financial Systems?” in order to analyze the financial systems in the MENA region. Berthelemy not only touches on subjects that are relevant to the study of microfinance’s achievements in reducing poverty but he also focuses on the financial innovations that have formed the economies in Tunisia and Algeria. He suggests that Algeria may be lacking in the microfinance sector due to many critical policies that it has adopted over the years.[20] He states that many features that hinder Algeria’s economic development are linked to state-owned banks, restrictive regulations, lack of protection to creditors, and tight control of the state.[21]

In Lebanon specifically, Eleonora Isaia (2005) states that the micro sector of entrepreneurial activities is extremely difficult to access for different reasons. She states that, “The micro credit industry in Lebanon, measured by the number of active clients, is one of the smallest of the Arab world: in fact, its 13,500 clients represent only 2% of the total market”.[22] Isaia explains that a few of the main reasons for Lebanon’s small activity in the microfinance industry are the dominance of male clients, individual lending plan, increase in use of collateral, and the high concentration in urban areas.[23]

Francesca Prior and Javier Santoma (2010) add that in Tunisia, strict regulations imposing high interest rates on loans are one of the main influences on the lack of access to credit. They also mention that in Algeria, the interest rate caps were eliminated in 2001, thus the interest rates are unregulated.[24] Prior and Santoma explain that one of the most important factors influencing the access to credit in Algeria and Tunisia is the “use of inappropriate credit assessment methods by lending institutions”.[25] Therefore, proper education on the aspects of different countries can aid in producing efficient microfinance organizations.

Importance

As the literature review demonstrates, microfinance has been successful in certain areas for different reasons. Therefore, there has been research done on microfinance in the MENA region, but the specific details of the countries need to be assessed to fully understand why microfinance has had different results in certain areas. Specifically, the aim is to understand the difference of microfinance institutions in the MENA region based on history, geographic characteristics, and domestic policies. Within the former French countries of the MENA region, specifically Algeria, Lebanon, and Tunisia, it is beneficial to compare and analyze the specific characteristics that can compromise the success of microfinance. The overall goal of this paper is to analyze whether or not microfinance in Algeria, Lebanon, and Tunisia is successful in alleviating poverty, and if not, why? Does a country's social and political past have an effect on the development of microfinance? What are the actors that affect the success of microfinance institutions? Even though there has been previous research on microfinance success and failures, this research will play an important role in determining the factors that influence microfinance's achievements. This study will combine two essential topics, history and microfinance, to enhance the progress of microfinance in developing countries. Further research will continue to benefit the role of microfinance sectors by analyzing the important factors, such as history, that hinder the goals of microfinance. My goal in conducting this research is ultimately to enhance the accomplishments of microfinance institutes, and to provide essential assistance to the poor through successful microfinance practices. Additionally, this study could present ways to better implement microfinance in developing countries in order to increase their success in alleviating poverty.

Methodology

The paper will consist of five chapters in total. The first chapter will include an overall introduction to microfinance. Specifically, I will focus on the history and origins of microfinance, while including the specific goals that microfinance strives to achieve, and the obstacles that microfinance institutions are presented. Furthermore, I will discuss the theoretical importance of microfinance in the Middle East and North Africa specifically in Algeria, Lebanon, and Tunisia, while mentioning the concept of poverty traps and the success and failure of microfinance models. In the second chapter, I will elaborate on Algeria's social and political history, while presenting details on its microfinance sector. In the third chapter, I will expand on Tunisia's social and political history, while presenting details on its microfinance sector. The fourth chapter will consist of Lebanon's social and political history, mentioning the details of its microfinance sector. Lastly, I will analyze and compare the characteristics that impact microfinance in the stated countries in my final chapter. Conclusions will be made on the impact of social and political history on microfinance's ability to reduce poverty and establish entrepreneurial development.

Methodologically, the paper presents a historical analysis of social and political history in Algeria, Tunisia, and Lebanon, in order to examine the role that history has played on the development of microfinance within the region. Secondary sources provide the primary means for this investigation. Secondary sources include academic articles, personal memoirs, historical journal entries, academic and historical books, and historical newspaper articles. Deductive logic and a desire to provide empirically verifiable explanations to this paper's questions characterize the nature of this research.

ALGERIA

Introduction

Algeria is a country with a long history of turmoil and distress. The past has left the country in a devastating state of oppression, leaving many unemployed, without any financial assistance. Political instability has hindered its development, especially pertaining to international aid and investment. The government has made efforts to aid in the economic issues, but its tight grasp on the economic sector leaves Algeria in a state of helplessness. Today, Algeria is macro-economically sound, but on a micro level, the economy is in desperate need of improvement. The unmet need for financial assistance poses various problems in the economic sector, providing little room for economic development. Even with the increase in public policies, the Algerian government puts major emphasis on the Algérie Post as a means for microfinance. As stated by various analysts, the government's tight control on the economic sector is drastically affecting the advancement of financial institutions.

Social History

Background Information

Algeria has a unique history that has affected many aspects of the country's development. In 1830, Algeria was colonized by France, ridding Algeria of all national power. In 1954, a movement to gain independence spread throughout Algeria, and the guerilla National Liberation Front (FLN) was formed as a means to fight against the French. For eight long years, the French fought against anyone suspected of siding with opposing forces, and the FLN used terrorist strategies to gain power over competing groups. During the Algerian war, brutal tactics were used by both the guerilla National Liberation Front and by the French, resulting in over 1.5 million deaths.[26] The National Liberation Front has stated that the struggle for independence throughout history has impacted Algeria's current state.[27] On July 1st, 1962, Algeria gained independence, leaving the FLN as the ruling party. At the time, Algerians were highly supportive of the FLN because of their success in the war for independence. However, the overall opinion of the FLN was drastically reversed when they resiliently supported the Soviet Union during the Cold War.[28] Their actions during this period began to shed light on their untrustworthy leadership, and the citizens of Algeria soon realized that the FLN was not executing any of the promises that they had previously made. Deepening frustration and opposition towards the government began to spread throughout the region, forcing the FLN to acknowledge the changes that needed to be made. In an effort to gain popularity back, the FLN created a constitution to open ways to a multiparty system in 1989.[29]

The new multiparty system encouraged various organizations and groups to form in an effort to win the people over. One of the major groups that grew in popularity was the Islamist Salvation Front (FIS). The FIS was initially formed to represent the Islamist groups aligning against the FLN. The FIS took stances against democracy and Western civilization, and took a populist position instead. In the 1990 municipal elections, the FIS was granted legal status and showed signs of growing popularity, leaving the FLN and the FIS as the two major parties in the upcoming elections. Realizing the reality that there could possibly be a change in government systems, and fearing the outcome, military personnel and elite citizens canceled the elections and created a coup against the administration.[30] To ensure that any further competition was not formed, the FLN executed, banned, or imprisoned any FIS activists. The movement against the FIS outraged many followers and resulted in violence against the security forces within Algeria. The violence included mass killings aimed towards civilians.[31]

Stemming from the FIS, the Armed Islamic Group (GIA) was formed to carry out the mission of the FIS. Following the formation of the GIA, Islamist factions began cropping up all over Algeria, and continue to grow today. Terrorist groups are still active in the rural regions of Algeria, have stated their alliance with Al Qaeda, and continue to launch attacks against state institutions, civilians, the military, and the law enforcement.[32] The past struggle for independence remains a key basis of Algeria's fundamental policies. McDougal, Viorst, and Prior all state that Algeria's history has had an influential impact on the struggling economy, the high level of unemployment, and rising social inequality.[33] The problems stem from the beginning of its efforts towards independence. History has had a significant impact on Algeria's development.[34]

In her article, Virginie Allaire discusses the political history of four of Algeria's neighboring countries: Morocco, Egypt, Tunisia, and Libya. Her information shows that Algeria was the first of these countries to be colonized in 1830, and was the last to gain its independence in 1962. Hence, Algeria endured 132 years of colonization; the only country that has a similar history is Morocco, which was colonized for 124 years. Algeria's government was considered a republic after independence, but was significantly backed by the military. The only other country with a similar experience was Libya. Algeria and Libya also had a similar socialistic political influence, aligning with the USSR, as previously stated. This similarity also led Algeria and Libya to have the least amount of international aid at the time.[35] Comparing the political history of these five countries illustrates that military rule and isolation could have had a major effect on the development of Algeria.[36] The psychological affect that colonial rule had, and continues to have, on Algeria is detrimental to its economic development, furthering the social hindrance of the citizens.[37] McDougal states, “The societal inheritance, then, of this history which is said to be 'inhabited by violence' is, at the personal, familial, local level, and at that of national political culture”.[38]

Economic Sector

After gaining independence, growth rates were declining significantly in every sector other than the hydrocarbon industry. To increase economic growth, the government established a development plan to amplify industrial investments. Industrialization was seen as an efficient way to integrate Algeria’s economy, i.e., broadening its trading partners, and establishing a sound economic system centered on the hydrocarbon sector.[39] The plan was initially aimed towards heavy industries, leading to an increase in job opportunities within the public sector, ultimately resulting in an increase in wages.[40] In spite of the increase in wages, the labor unrest continued to escalate, leading to the first protest in 1975. Demanding higher wages, lower-paid workers initiated strikes to close the immense pay gap within the industry. Not only was the issue of inadequate wages a pressing concern for the workers, but late payments, and poor working conditions also contributed to the increase in strikes, halting the growth of the industrial sector in 1977. After a few weeks, wage increases were finally granted to the workers, but the arrangements were quickly reversed when Chadli Benjedid became president in 1978. Benjedid had many plans for the industrial sector, failing to show consideration towards social programs, quickly creating impassioned strikes in the 1980s. Rather than creating a unity between the workers in the same enterprise, there was a sense of competition between them. Analyzing the social consensus among workers, Alexander states that the working class "never developed a unity of action or an identity of interests between the groups within it”.[41]

As Benjedid's industrial development strategy was under way, living conditions began to be a problem in the highly populated areas. Because of the increase in competition between the workers, it was essential to work in a successful factory in order to make a living.[42] With this in mind, people flooded to the industrial zones in an effort to work in a flourishing enterprise, creating the problem of inadequate housing. The cost of living was increasing and the living conditions were worsening as the industrial areas began to grow.[43] In addition, wage inequalities began to be a pressing issue.

Another major problem within the development plans was the complexities within the new industrial system. In an effort to boost the economy, the Algerian government asked for assistance from American and European firms to construct turnkey plants. This brought about new production systems that were much more complicated than what the average worker was accustomed to. The previous factory workers were not adequately trained, leaving a shortage of workers who had sufficient training to perform the complex tasks required of them. This then led to a decline in productivity rates.[44] In 1989, the Algerian government opened the economic sector to international banks, and economic reforms were underway.

The first of these reforms was the 1990 money and credit law, encouraging foreign investment, and eliminating the strict Investment Codes of 1963 and 1966. The belief was that this approach would promote open trade with other nations.[45] However, the optimistic view of that time was quickly reversed as the economic sphere continued to worsen. The Algeria government found itself with record high inflation, and extreme debt: 30 percent inflation, and 20 billion in debt.[46]

Political History

Background Information

The continuation of economic problems throughout history ultimately stems from the inadequate political decisions of the past. Both Christopher Alexander and Philip Naylor introduce the past political history as a key element in understanding Algeria's current economy. The conflicts within the economic sector ultimately began because of skewed judgment from political leaders; going all the way back to 1970, when the government created the Socialist Enterprise Management (GSE) in order to heighten worker productivity. The GSE was a plan to implement state-labor relations, which also allowed employees to earn higher wages based on their productivity and their plants' annual revenues. The GSE sanctioned union groups and created assemblies to overlook the plants' revenues and grant bonuses, as they deemed necessary.[47] Then, in 1975, President Houari Boumediene revealed his proposition for a national charter mirroring a socialist economy based on industrialization. In President Boumedienne's eyes, socialism was the only way to gain complete independence. It was essential, he believed, to grow rapidly, relying on oil revenues to aid in the process.[48] Allowing the government to acquire power over every aspect of the state through the charter of 1976 created even more labor unrest in 1977, but mostly within the public sector, not the private.[49] This was essential because the increase in participation of public employees was valuable in ensuring the government's intervention. The active involvement spread throughout Algeria, creating additional worker unrest throughout the sectors.[50]

Following the strikes in 1977, the government stressed the GSE plan once again, and enhanced it with a General Worker Statute (SGT). The SGT created a base wage policy that would work to equalize pay standards. As mentioned before, because of the complex industrial systems, there weren't adequate workers who were qualified for the jobs in the industrial division.[51] In an attempt to encourage the skilled workers to stay in the country, the Algerian government set up pay scales that compensated the qualified workers much more than those less qualified. By creating a graph consisting of 15,000 different jobs split into twenty categories, the pay would be evenly distributed by the category, and each worker in the same category would be paid the same. This was also supposed to fix the unfair wage gap between the different categories. However, realizing the benefits of being a trained employee, the qualified workers exploited their individuality and demanded a raise in wages. If the demands weren't fulfilled, the skilled employees would simply transfer to a different factory that paid them what they were asking. As a result, the directors of the plants tried to satisfy the workers' requisitions because of the high demand for skilled employees. This in return created an environment that allowed the trained workers to eventually acquire the higher wages that they wanted, leaving the less skilled workers with low wages.[52] Instead of creating an equal horizon like the government had planned, the SGT and GSE ultimately assembled an environment based on thriving competition due to the different class divisions; ultimately this happened because the SGT recognized adequate education and training as the most essential factor above all other qualifications, placing the skilled workers in the highest category with the highest wages.[53] This allowed the plant managers to have total control, in order to obtain and maintain high levels of skilled workers, meaning that the managers were able to manipulate the GSE and SGT systems; placing the skilled workers into the assembly groups meant that the managers were certain that the lower-paid workers were not included into assembly groups. After gaining a spot in an assembly group, the members would use their influence to grant promotions and raises for themselves and other members, while ignoring the workers in the lower wage categories. When creating the GSE and SGT systems, the government looked to the individual enterprises to provide the information about the different jobs and the degree to which the job categories should be paid. The assemblies took advantage of this opportunity to ensure that their job category was the highest paid category, augmenting their bonuses and salaries to work in their favor.[54]

In an interview with President Boumediene regarding the inequalities of the pay scale, he proclaimed "we have inequalities because we have chosen to pay skilled workers better than others in order to keep them".[55] He also admitted "the danger exists that they will become a caste or a class".[56] Nearly two years after Boumediene made those statements, more than 10,000 low paid workers shut down the Port in Algiers for nearly two weeks because they were not receiving higher wages and better working conditions that they had been hoping for. Throughout that summer, there were multiple strikes within the public sector especially within the transportation sector. In all of the instances, the lower-class workers were outraged and fed up that they weren't receiving an increase in pay, but the administrative workers were.[57] Information provided by the Société Electronique et Mécanique Algerienne (SNEMA), shows that the profit share in 1976 for low-wage workers was 14.85 DA, while the members of the assembly received 4,283 DA (CGAP). The striking difference between the two wages illustrates the severity of the pay gaps during this period. The government at that time believed that the system was an efficient system; however evidence shows that this is erroneous.

Ultimately, the government's development plans were inefficient and unsuccessful. The assembly members relied on the unskilled workers in order to obtain an increase in salary, thus leaving the lower-paid workers with no hope to escape poverty, without any support from the government. As a result, the lower-paid employees relied on striking to get the government's attention on their behalf.[58] The strikes were seen as their only opportunity to ensure protection.

The spillover from the 1970s created rising debt and economic concerns in the 1980s. With a new leader in position, Algeria's political economy was predicted to generate growth. When Chadli Benjedid was elected to power in 1980, many promises were made based on the assumption that social and economic reforms were underway. Specific promises included a cut in state spending and an increase in aid to the private sector. In an effort to restore the economy, Benjedid prepared reform programs that didn't include assistance from the IMF and World Bank, as he believed intrinsic reforms were essential.[59] Although Benjedid made an effort to circumvent a structural adjustment program, it was ultimately inevitable under the circumstances. The effect of such programs included a basis of productivity as an essential means for wage compensation, drastic reduction in social expenditures, and expanded working hours.[60]

During the beginning of his presidency, Benjedid and his government passed the Law 88-01, a program with the intention of addressing the government's plan to free the public enterprises from the state's control.[61] Under the plan, the government would "no longer determine investment levels, foreign exchange allocations, and prices for public enterprises. The state would settle debts and provide an initial dose of operating capital. Thereafter, each enterprise would have to survive according to market standards of efficiency".[62] For the plan to be successful, the government decided that there had to be an amicable agreement made between directors and workers. This allowed each individual plant to establish wages based on its economic circumstances. The Law 88-01 ultimately gave the plant director the power to control all aspects of the plant.[63] This reduced the risk of skilled workers migrating from one plant to another in search of higher wages because wages were based on productivity. Furthermore, directors began to link wages with labor productivity for every employee. The work force became more stable as higher paid workers were apprehensive that they would be the first employees to be cut in an effort to reduce costs quickly.[64]

After cutting citizen's benefits after the oil price collapses in 1982 and 1985-86, tensions began to grow as citizens felt as if their rights were being taken away from them. As stated before, growing discontent motivated mass protests, which resulted in mass killings and brutalities against civilians, across the country in 1988 over issues that had been deeply instilled in social and political frustration.[65] What was called Black October marks the second deadliest historical occurrence since the Algerian War. Many Algerian citizens claim that the aftermath of the strikes reminded them of the tragedies that occurred under colonial rule, and they were opposed to anything like that happening again.[66] These riots weren't based on unemployment and inadequate wages alone, but were more focused on institutional reform, including changes in the repressive government.[67] In 1989, Algeria's new constitution was constructed, stating the right to strike. In addition to the right to strike, the new constitution declared the establishment of a multiparty system. However, the creation of a multiparty system instilled fear in many of the elite citizens that were skeptical of what the future held for them. The election in 1992 was canceled due to a coup against the Benjedid administration.[68] The opening of a multiparty system highlighted the substantial cultural differences within Algeria, leaving the politically and socially privileged citizens fearful of their future.[69] Furthermore, the FIS, outraged over the canceled election, was motivated to get revenge against the FLN. From the years 1993 to 1998, a state of chaos ensued in Algeria, and in France. Believing that the FLN was of French culture, the FIS and the Armed Islamic Group (GIA), crossed boarders, inflicting terrorist attacks against French civilians. At the same time, the GIA and FIS targeted Algerian citizens, and government leaders, costing at least thirty thousand Algerian lives by 1994, and eighty thousand lives by 1997.[70] Burning of homes, mutilations, and public beheadings were a few of the tactics ensued by the FIS during this time, creating a killing field.[71] In 1998, popular protests broke out in an effort to end the mass killings and violence that swept the nation. In the 1999 election, President Abdelaziz Bouteflika was elected, with many people skeptical of votes being altered by the government. After winning, Bouteflika pronounced that those seeking justice against the individuals, who committed atrocities, should forget it; there would never be any kind of punishment against those individuals.[72] This created various conflicts within society, leaving the citizens angry with their government. Beginning in early 2000s, Algeria's economy began to progress, but even today, strikes still break out due to a desire for higher wages and better working conditions.

Current Situation

Policies

As stated before, in the past, Algeria's bank assets were inflated by government- directed credits because of the centrally planned economy in Algeria.[73] Progress has been made in the liberalization of interest rates, the formation of reform programs, and the realization that change is needed. Even though Algeria has been making progress towards modernizing its financial system in recent years, Virginie Allaire et. al, and Berthelemy note that Algeria's continuing problem is government ownership of the majority of Algeria's financial sector. The private sector is extremely underdeveloped; lending to the private sector was only at 13 percent in 2004, when Morocco's was at 56 percent and Tunisia's at 61 percent. Allowing little opportunity for the private sector, 93 percent of the financial sector is occupied by the banking sector, resulting in government control of 90 percent of the banking sector.[74]

The power the government possesses over the financial sector exacerbates the current shortage of access to banking services, and amplifies the need for public credit bureaus. Access to basic financial services in Algeria was at 30% in 2003.[75] This indicates that a lack in banking services is a major factor impeding economic development. Data from 2006 shows that Algeria's banking and postal distribution is almost half of Tunisia's.[76] Only .2% of Algeria's citizens have a history of credit; thus, cash remains the primary source of payment in Algeria, making up more than half of the money supply.[77] In a report from the CGAP, analyses show that social challenges have hindered Algeria's economic development throughout the years. Focusing on macroeconomic stability, Algeria's oil industry is the main factor pushing the economy forward. Due to its economic ability, taxes can be kept at an average indicator, the government can invest in improving state-owned banks, progress can be made toward new business development, and economic reform plans can be implemented.[78] The main goal that the government has been working towards is lowering the unemployment rate for the younger generation by stabilizing the banking system with regulations that will ultimately increase the efficiency of the banks and organizations.[79] In 2006, a program was created in order to launch, on average, 100 new businesses within each municipality.[80] Studies from 2006 to 2009 illustrate the success that the reform programs have had in decreasing the unemployment rate; in three years, the unemployment rate went from 25% to 15%.[81]

In response to the inadequate banking services, the Algerian government has created programs to develop a payment system throughout the country. In 2006, the Order 03011 on Currency and Credit was established to create the first real-time gross settlement (RTGS) system for large companies and enterprises. In an effort to reduce the corruption within the financial system, the Order 03011 establishes a credible system of mortgages, financing, venture capital endorsement, and the bolstering of audit committees and creation of management systems at government banks.[82] The retail payment system, along with the RTGS, was established in 2006 to modernize the organization of debt devices. This will transform the payment procedure into a technological system, thus increasing the security of payments. Along with the said advancements, the creation of a bankcard system was proposed in 2006 as well. Similar to a debit card, the bankcard will be used at ATMs to retrieve money, and to ease the payment process. With support from the Société d'Automatisation des Transactions Inter Bancaires et de Monetiqe (SATIM), 1,000 electric payment terminals and 350 ATMs have been installed throughout the urban areas of Algeria.[83]

Microfinance

As mentioned before, Algeria's economy is stable on a macroeconomic level, but on a microeconomic level, there are many problems that need to be addressed. As stated previously, unemployment needs to be a top priority. Many of the economic disadvantages come from the lack of microfinance within the region. There is a high demand for microfinance in Algeria, especially in the rural areas. In 2000, there was an estimated 148,725 very small businesses that employed up to ten employees. This is to be compared to the approximate five million households that made up Algeria at the time. On top of that, the informal sector, in 2003, accounted for 17.2 percent of overall employment in Algeria, and employed roughly 1,249,000 people. The steady increase in small businesses as well as the informal sector is imperative in meeting the growing need for microfinance in Algeria. Additionally, it is estimated that only thirty percent of the households in Algeria have bank accounts.[84]

The main microfinance institute in Algeria is Algérie Post. Founded in 2002, Algérie Post continues to be considered a governmental corporation that offers access to savings products, fund transfers, housing loans, and bankcards.[85] Handling more than a million transactions a day with 3,271 post offices, Algérie Post consists of the central management comprised of six staff units: Communications, Legal affairs and International Relations, Strategy, Planning and Organization, Quality Management, Property, and Audit and Management control; the management divisions include: postal services, finance and accounting, postal financial services, information technology, marketing, human resources, and general services, and eight territorial post office management units (DTP), which each look after regional provinces, and 48 provinces postal units (UPW), which manage the local processes. 2004 statistics from the CGAP, show that Algérie Post controls 7.1 million checking accounts with "deposits of 253 billion DZD, 3.6 million CNEP Banque savings accounts with deposits of 198 DZD billion and handles 31 million money order transaction involving 2,300 billion DZD in transferred funds".[86] Recently, because of Algérie Post, bank card systems have been created, along with online account systems. Being one of the only microfinance institutions in Algeria, Algérie Post can manipulate the banking sector to inevitably increase its profit. In certain circumstances, the people in Algeria have no other choice but to bank with Algérie Post.

In addition to Algérie Post, there are about fifteen major Nongovernmental Organizations (NGOs) working in Algeria. Since 1962, Touiza has been the major NGO providing microfinance services to small enterprises and entrepreneurs. Today, Touiza's mission is centered on youth leadership, development, training, and research. However, Touiza is still extremely immature in Algeria today because of the little profit that it produces. In order for Touiza to make an impact in Algeria, it is essential that the arranged loans have minimal interest. However, this poses a problem for Touiza's development because they are limited in advancements due to their small earnings.[87]

Algeria's government has made slow progress towards encouraging microfinance in the region by creating three governmental organizations that help entrepreneurs with low interest loans and tax breaks. The first of these three is The National Microfinance Management Agency (ANGEM). ANGEM was established in 2003, and is focused on providing loans to small businesses and entrepreneurs. It has employed around 600 people and it is continuing to grow throughout the region; however, ANGEM still depends on government regulation and needs to continue to grow to be successful with microfinance services.[88] The second is the National Agency for Youth Employment (ANSEJ). ANSEJ's main focus is geared towards entrepreneurship within the younger generation; this includes training classes and microloans for start-up businesses. As of 2003, ANSEJ had financed 52,393 projects. The last organization is The National Unemployment Benefit Fund (CNAC). CNAC is similar to ANSEJ, but primarily focuses on citizens ranging from ages 35 to 50. However, CNAC has various laws and regulations associated with its lending plans.[89]

The recurring theme evident throughout Algeria's economic system is the government's active role in banking activity. Government control is enforced in every aspect of the economic sector. Within Algeria, there are six government banks, and five major finance companies, all interconnected.[90] The BEA Bank has 76 branches and specializes in large corporations, specifically within the oil industry. The BNA bank has 190 branches and focuses mainly on large corporations. The BADR Bank consists of 327 branches, focusing mainly on rural farm loans, as well as large corporations. The CNEP Bank offers housing loans and saving tools, and is closely associated with Algérie Post. The BDL and CPA banks have around 130 and 165 branches that offer a broad range of banking services from retail markets to individual personal accounts. The finance companies in Algeria play a slightly different role than the government banks. The first of these finance companies was developed by the government in the 1960s with the intention to reform Algeria's economy. The Algerian Bank of Development (BAD) is still active in the oil industry. SOFINANCE, or the Finance Society of Investment, was created in affiliation with BAD. Its main objective was to provide a means to restructure government organizations. The last three, FINALEP, Society of Housing Refinance (SRH), and The Algerian Society of Equipment and Materials (SALEM), all currently deal with refinancing on homes, leasing equipment to developing businesses, or reestablishing loans to start-up businesses.[91] Progress towards privatization has been underway, aimed directly for two government owned banks. In addition, the improvement of internal elements is a top priority for the central bank. Reforms are in progress to improve the financial authority within government owned banks; reforms enacted in 2003 constructed to provide education for the younger citizens interested in a career in banking.[92]

Algeria's economic sector is extremely unique in that the private sector is not yet fully established. Figures taken from the World Bank and IMF show the significantly declining rate of the ratio of domestic credit to private sector to GDP; in 1985, the ratio in percentage was 60 percent, and in 2001 it was 7 percent.[93] Figures from 2005 show that out of seven MENA countries, Algeria has one of the lowest percentages of credit in relation to its GDP; which is a significant result because Algeria's GDP is relatively high due to the hydrocarbon sector.[94] Restrictions on foreign investment make it difficult for international firms to invest, and ultimately make investing in Algeria troublesome for outsiders. According to the Heritage foundation, Algeria has one of the highest levels of restrictiveness in the MENA region.[95] There are currently ten international banks that make up the private-sector; these banks are mostly concerned with high-income customers and don't deal with low monetary loans. Due to its expansive oil industry, Algeria has a major appeal to outside investment, but foreign investment exclusively benefits the affluent citizens. Data shows that there hasn't been enough structural reform by the government, thus limiting the advancement of its banking sector.[96]

Legal Forms

Currently, various factors affect microfinance in Algeria. But to fully understand them, it is necessary to recognize the legalities pertaining to the economic sector. The framework is clearly stated in OMC 03-11. OMC 03-11 asserts that the organization of financial institutes is permitted under certain regulations. Regulations include the way in which an organization does business through a bank or finance company. Presently, commercial bank and finance companies are allowed to freely conduct banking transactions; however, the Algerian government holds the power to prohibit foreign investment if needed. It allows NGOs to act freely, without government surveillance. This is because the NGOs operate using their own money. Nonetheless, as mentioned before, NGOs aren't generating profit due to the high demand of low interest loans, further restricting their potential for growth. Evidence shows that due to tight governmental control, Algeria's microfinance sector is suffering.[97]

Conclusion

The Algerian government has made significant progress toward economic reform. Even though microfinance institutes are often reluctant to invest in Algeria, with the exception of Touiza, the government has established a similar alternative, Algérie Post. In addition to the Algérie Post, government organizations such as The National Microfinance Management Agency (ANGEM), The National Agency for Youth Employment (ANSEJ), and The National Unemployment Benefit Fund (CNAC), provide finance opportunities to small businesses, youth, and entrepreneurs, in an effort to encourage microfinance in the region. On top of that, there are six government banks and five major finance companies currently operating in Algeria. Algeria is still lagging behind its neighboring countries in foreign investment, mostly because of the overbearing role of the government in the financial sector. The exiguous role of NGOs in the region is directly related to the restrictions imposed by the government. Ultimately, the lack of financial means extends back to Algeria's past. As a result of the grievous events of the past, Algerians conjecture that their current situation is more compelling than an alternate solution, filled with fear that a similar occurrence could occur.

Overall, Algeria's history has made an obvious impact on its financial system, and continues to pose challenges to its economic development. The colonial era, and the fight for independence instilled a lack of trust towards international factors, creating a deficiency in international investment and a tighter control of financial systems by the government. A variety of social and economic challenges of the past have made it difficult for the Algerian government to implement an overall economic reform. The tight restrictions made by the government will continue to alter Algeria's economic development if something is not fixed immediately. The lack in availability of microfinance is directly linked to the government's control on the economic sector, which ultimately dictates the all-around development of the country. The memories of the past must be a learning tool to progress, and must be used to further the development of the economy, rather than thwart its progression. Furthermore, it is imperative that the Algerian government takes action towards establishing additional microfinance institutes, in order to enhance its economy in the rural and urban areas, thus alleviating poverty throughout the country.

TUNISIA

Introduction

Tunisia's unique political history has had the most influence on its social and economic developments within the region. As a result of political corruption, economic inequality fueled widespread political opposition, ultimately resulting in overall state instability. Tunisia's role in the Middle East and North Africa (MENA) region is oftentimes different from its Arab neighbors. Political corruption coupled with the government's tight control on the economic sector continues to hinder the progress of economic developments within the state. Moreover, the microfinance sector remains immature as a result of government bureaucracy from the past. In addition, while Tunisia's past history has a significant effect on its overall developments, the Jasmine Revolution in 2011 created many obstacles for Tunisia's future.

Political History

Background information

Tunisia's political history has had a major impact on its economic developments. In 1881, Tunisia was declared a French protectorate under the Friendship and Good Neighborliness Treaty.[98] In 1934, after French opposition rapidly increased, Habib Bourguiba, an erudite lawyer with years of education, helped in establishing the Neo-Destour to encourage citizens to support independence from France.[99] Reports state that the Neo Destour was committed to "the struggle in the street to obtain the independence of Tunisia by opposing French imperialism and colonization".[100] In 1957, after years of fighting for independence, Tunisia was declared an independent state. Following independence, Bourguiba was elected President by popular demand.

From 1957 to 1987, President Bourguiba stimulated substantial economic and social development plans, while still maintaining strong reliance on the European Union. Bourguiba strongly believed in liberal modernization, while emphasizing western influence in the Tunisian political system. As a response to Bourguiba's financial reform plans, foreign grants and loans made up nearly 50 percent of Tunisia's national capital budget.[101] Bourguiba acknowledged the need for foreign assistance in order to accomplish economic progress. In describing Bourguiba's regime, the Parti Socialiste Detourien (PSD), Clement Moore states that Bourguiba would be characterized as a "modern administrative dictatorship", where the PSD elite controlled every social and political aspect within Tunisia.[102] A main reformation plan enacted by Bourguiba was the education program, which was made possible through American and French assistance.[103] Bourguiba's educational program aimed to provide primary education for all citizens. In addition to his educational program, Bourguiba was known for his Ten-Year Plan. The Prime Minister at the time, Hedi Nouira constructed the plan focusing on industrial expansion and foreign investment. His appealing concession package, which allowed foreign investors to establish export-oriented industries within Tunisia, proved to be a success in stimulating the economy.[104] Developing industries within urban areas created an influx of citizens from rural territories; citizens began flocking to the industrial zones in pursuit of employment, ultimately resulting in high unemployment within the industrial cities.[105] Nevertheless, the changes made by Hedi Nouira increased foreign investments, stabilized the economy, and created civil stability within the region.[106] As unemployment increased and President Bourguiba's health began to deteriorate, the citizens began to push for a political transition.

In 1987, Zine el Abidine Ben Ali became president. During Ben Ali's time as president from 1987 to 2011, Tunisia experienced an economic collapse, directly related to strict government restrictions, tight regulations, political corruption and clientelism. The annual human rights report from the State Department during Ben Ali's regime indicated lack of political freedom, breaches of freedom and assembly and expression, and various reports on torture and abuse to prisoners.[107] When writing about his time in Tunisia under the Ben Ali regime, Salah Ben Youssef describes the state as an "oppressive political environment, coupled with extreme economic inequality, opaque political and economic national decision-making and the government's insensitivity to popular demands for greater economic opportunity".[108]

Above all, political corruption heightened during Ben Ali's presidency. Ben Ali's family companies were significantly lucrative during his leadership. A study from the World Bank states that, "Ben Ali firms outperform their competitors in terms of employment, output, market share, and profits, as well as growth in these variables and do so especially in sectors that are regulated."[109] Specifically, the performance differences are significantly larger in sectors that the Ben Ali regime could require authorization and FDI restrictions; thus, the Ben Ali regime took advantage of its power in order to manipulate the economic sector to further its own business means, while repressing competitors through legislation. In addition, the same study shows that "the market share of a typical Ben Ali firm is 6.3 percentage points higher than the average firm, and this conditional differential is entirely due to Ben Ali firms sorting into the regulated sectors".[110] The same study from the World Bank in 2014 presents information indicating that President Ben Ali would manipulate state laws and regulations in order to benefit those closest to the regime, such as family members and close friends. In the study, 220 firms that were directly connected to the Ben Ali clan were analyzed in conjunction with legislation during Ben Ali's presidency. After finding 25 new decrees issued in his 17 years, in addition to 45 new regulations and authorization requirements in 45 various sectors and newly enacted Foreign Direct Investment restrictions in 28 different sectors, it was evident that Ben Ali's legislation was clearly serving as a means to eliminate any competition that was seen as a threat to the clan's business endeavors. Furthermore, more than one fifth of all profits generated by the private sector went to the clan's associated firms, ultimately enhancing their power within the economic sector.[111] In an attempt to protect the clan's interests, the Ben Ali regime benefitted from the practice of crony-capitalism in order to stay loyal to his kin. The Ben Ali government caused blatant frustration for the Tunisian citizens, as evidence of corrupt activities began to surface and nothing was done to alleviate the unfair circumstances, which encompassed the Tunisian society.[112]

Social History

Background Information

Tunisia's financial developments have been hindered as a result of political interference and tight state control, restrictive barriers, and lack of social services. Tunisia's lack of competition in its private sector has thwarted the concentration of entrepreneurship and investment. During Bourguiba's presidency, the Tunisian government was able to provide social services while maintaining overall state stability. However, the Ben Ali regime favored the private sector for personal funding of incentive programs, tax fraud, and public sector accessibility as a means to operate the state.[113] When Ben Ali came into power, changes were made to the state system, which hindered its developments and created political discontent throughout the nation. Following the Bourguiba government, the Ben Ali regime provided economic assistance to considerable sections of the population in return for political support, thus maintaining political stability and power in the beginning of his presidency. However, the clientelism mechanism failed after time as a result of inadequate employment for the educated citizens, mainly young citizens, resulting in the 2011 Jasmine Revolution.[114]

Economic Sector

Tunisia's social history was directly influenced by its political history, creating an array of problems within the state. After gaining independence in 1962, Tunisia was relying financially on the French for assistance and guidance. However, as the financial assistance subsided, the Bourguiba administration enacted the Ten- Year Plan focused on self-sufficiency through industrialization and foreign investments.[115] From the years 1965-1967, foreign investments significantly increased, while the coastal cities created a flourishing tourism sector.[116] In 1970, President Bourguiba installed a new Prime Minister who had past reformation experience, in order to enhance the national economy. Prime Minister Nouira's new concession package, which allowed foreign investors to establish export-oriented industries within Tunisia, generated over 500 new industrial factories by 1977.[117] In addition to private and foreign investments, Nouira's program allowed the government to enhance the public sector, creating 100 new state-owned organizations during this period. Nouira's plan increased foreign investment, stabilized the economy, and attained a 5.6% annual growth rate throughout the 1970s.[118] The negative consequences of the rapid industrialization expansion soon became evident when an influx of citizens from rural territories began to flock to the industrial urban areas. As the pursuit of employment increased in the urban areas, the levels of unemployment began to quickly increase.[119]

In an effort to relieve the unemployment epidemic, the Family Planning Policy was enacted in order to reduce the nation's population, thus allowing more employment for the future. The Family Planning Policy increased the GDP and per capita income, but failed to please the educated citizens throughout the country. For most of his leadership, President Ben Ali practiced clientelism, in which the regime had an agreement with society for political support. As mentioned before, the government was able to provide economic and social assistance to the people, in return for support and state stability. However, as unemployment continued to grow, regional disparities became more evident, creating popular political opposition among the educated citizens.[120] The regime's authority diminished as social services were no longer provided by the government as they had been during Bourguiba's presidency; youth unemployment and frustration increased as the bureaucratic government became top-heavy and quit providing financial and social services to the people. An examination of the Ben Ali administration states, "Gradually, the losers from the status quo became more numerous than the winners, which led to the erosion of the regime's legitimacy. Repression alone could no longer keep the Ben Ali government afloat".[121]

In January of 2011, as a result of economic inequalities, Tunisia experienced widespread turmoil and political opposition. As political discontent heightened, the educated youth within Tunisia began to protest against the government restrictions, particularly in the informal sector. The main incident, which sparked the unrest, was the self-immolation of a youth, working in the informal sector as a vegetable vendor. After being harassed various times by local law enforcement Mohammed Bouazizi, set himself on fire in opposition to the regime's regulations. As a result, antigovernment protests, particularly within the youth population, quickly spread throughout Tunisia, leaving the state in disarray.[122] The incident motivated protestors throughout the country, requiring local law enforcement to intervene, consequently taking an estimated 338 lives due to violent conduct.[123] After months of antigovernment protests, President Ben Ali fled the country to Saudi Arabia in January of 2011. What is known as the Jasmine Revolution has been the most significant incident in Tunisia's history; during this time, demand for political reform spread throughout the region, resulting in the Arab Spring movement.[124]

After the Revolution, which cost an estimated 5 percent of GDP, tourism declined by more than 60 percent. In addition, foreign direct investment (FDI) declined by more than 20 percent, as nearly 100 international companies departed the private sector. Unemployment drastically increased, as did the public deficit.[125] Employment remains a popular concern of the Tunisian citizens, as the unemployment rate has been over 13 percent for the last 30 years, nearly all of Ben Ali's leadership. A key factor driving the Jasmine Revolution was the increase in education relative to the unemployment rates. 70 percent of the unemployed are under the age of 30, while 85 percent are under 35, with the rate of post-secondary education increasing from 20 percent of the population to over 70 percent in just ten years. The increase in educated citizens highlights the demand for an increase in employment opportunities. Additionally, the frustration of educated, unemployed youth with high expectations was increasingly directed towards the government.[126] Because public employees earned on average, 17 percent more than private sector employees, resulting in a 40 percent wage gap between private and public employees, educated youth decided to wait for better opportunities in the public sectors in order to attain the highest wages. A study focused on youth unemployment within Tunisia revealed that "on average, each university graduate remains unemployed for two years and four months, which is 9 months longer than non-graduates".[127]

In addition, the private sector is very small, with minimum private investment. Private investment provides jobs for unskilled workers, while most of the public Tunisian firms are small; 97% of Tunisian public firms consist of less than 5 employees, including uneducated labor. Thus, the small firms can pay less money to hire uneducated workers, while the educated citizens search for employment. For example, a study done by the Tunisian Ministry of Vocational Training and Education shows that only 8 out of 100 jobs in the tourism sector require educated workers, while the rest are uneducated employees, who are being paid less. This creates a society where educated citizens are constantly searching for employment, increasing their frustration, all due to the government's economic system.

Due to the government's strict regulations and tax systems, microenterprises are subject to avoid taxation or pay a substantial amount because of the Ben Ali's "lump tax system," which doesn't encourage microfinance institutes to invest or expand once established. It should also be noted that medium to large firms pay a 30 percent corporate tax, unless qualified for tax exemption, or they have political associations, which allow them to under-report annual earnings.[128] Bureaucratic government practices make it difficult for businesses to thrive in the financial field. The state's major involvement in the productive sector, such as telecommunications, transportation, and banking, directly affects the development of independent institutions. Ben Ali's extensive power allowed his regime to revise legislation for FDI, making it nearly impossible to increase investment within Tunisia. All investors were required to obtain approval from Ben Ali's clan before being able to do business in Tunisia; even then, the regime would oftentimes force outside companies to work directly with their specific corporations in order to benefit the clan directly, thus drastically hurting private investment. Following the Tunisian revolution, the new government confiscated the Ben Ali regime's assets from 1987 to 2011. Included in the assets were 48 various yachts and boats, 550 different properties, 40 stock portfolios, 400 international enterprises and more than 360 bank accounts. The evidence of the extent of corruption was indicated in the total assets; the total assets were estimated at a total of 13 billion USD, which equals to be more than one-quarter of the GDP in Tunisia in 2011.[129]

Current Situation

Policies

The state microfinance regulations that existed under Ben Ali's regime were extremely restrictive and were oftentimes altered in order to benefit the Ben Ali clan. In order to ensure that competition was minimal, the Ben Ali regime created an array of regulations and laws that prohibited microfinance institutes from growing as an independent entity, ultimately discouraging the establishment of microfinance. After the Jasmine Revolution, the Tunisian government established policies and programs in order to encourage economic expansion and opportunities.

In 2000, the Tunisian government enacted an investment policy under the Law 120-93. From 2000- 2009, the policy cost around 2.2 percent of the annual GDP a year. Figures show that during that decade, the share of private investment in GDP declined from 15.3 to 12.5 percent from 2000-2004, and then stayed around 14 percent until 2010.[130] This evidence suggests that the investment incentive program through Law 120-93, was inefficient in increasing private investment. Ultimately, it provides confirmation that the substantial costs of the incentives were ineffective; thus, the Ben Ali regime used the system to bolster its power and increase its control over the private sector. The Ben Ali regime used the code to discriminate against enterprises based on size, location, economic sector, and export orientation, enhancing the government's unrestricted power, while generating enormous stress in the business environment.[131]

In 2011, the interim government established a "short-term economic and social program" in order to increase economic stability after the revolution. The program consisted of five key focuses: job creation, security, regional development, social services, and support for economic activity including access to banking services.[132] In addition, the 2011 state budget was amended in order to readjust state resources and state spending. However, the interim government had a few obstacles in dealing with the economic troubles of the time, which ultimately led to the focus of free and fair elections, rather than emphasis on domestic economic developments.

Focusing on the major issue of unemployment, the government has created various programs and policies in order to maintain stability. The first policy is a labor incentive directed towards troubled firms that were affected by the revolution. In order to successfully keep the firms in the market, the government oftentimes distributes subsidies and tax breaks as a means to prevent cutting employees, or even departing the state altogether. Next, is the National Employment Fund, which granted labor subsidies to employees and employers as an incentive to hire more employees. Before the revolution, the National Employment Fund was the main source of finance for labor market policies; however it was directly managed by the President's office, ultimately lacking transparency with maximum restrictions and regulations on who was eligible for the incentives.[133]

Microfinance

After the crisis in the 1960s, the Tunisian government constructed a market-oriented system, focusing mainly on tourism, exportation, and foreign investment. Within Tunisia, 14 commercial banks, eight development banks, eight foreign banks, and two business banks constituted the economic sector. In addition, a variety of diverse financial institutions exists within Tunisia.[134] The economic sector is regulated by the state, while the Banque Centrale de Tunisaie (BCT) manages the financial sector. Since the revolution in 2010, the newly elected government has recognized microfinance as a beneficial financial tool in alleviating poverty within the region; thus the state has increased investment in the microfinance sector, however progress has been inadequate as a result of state regulations.[135] Within Tunisia, there are currently an estimated 340,000 micro enterprises, as 82% of the current companies employ less than six individuals.[136]

One of the major microfinance institutes in Tunisia, ENDA Inter-Arabe (ENDA), was founded in 1990 in Tunis. ENDA is located in 21 countries, focusing on economic and social integration, education, micro-credit, financial training, literacy, and general banking services.[137] ENDA's central goal is to create a sustainable economy, centered on entrepreneurship and self-employment, while encouraging unity within rural communities. ENDA's group lending system allows reliable clients to increase loans and create new credit lines when needed.[138] Individual loans are accessible, but group lending is preferred in most cases. With a 98% repayment rate, the small but successful NGO is funded through revenue generated by the program.[139] Studies have shown that ENDA's increase in success is due to its members' saving habits. Members of ENDA have been taught to save as they continue to earn profit, thus instilling beneficial habits that contribute to financial development. Data collected from Tunis shows that members have improved their communication skills, enhanced their self-confidence, and have gained a sense of empowerment by partaking in an entrepreneurial lifestyle.[140] In addition, group lending permits members to elect a president and treasurer to ensure progress within the group, establishing responsibility and leadership skills. By enacting a democratic system within the financial sector, ENDA incorporates a sense of self-worth within the society, encouraging individuals to participate in political activity.[141] Formal banks fail to actively participate in rural areas; thus it is essential that the microfinance sector grow in order to productively enhance financial development throughout the entire region.[142]

State microcredit is conducted through the Tunisian Solidarity Bank (TSB). After acknowledging the success of ENDA, the Tunisian government established the Tunisian Bank of Solidarity in 1997. Acting as the central bank of deposit, the TSB authorizes microcredit to activities achieving steady income and producing employment within various fields throughout the nation. The main role of the TSB is to ensure a widespread distribution of state microloans, in return creating regional economic development.[143] There are two levels of funding that the TSB engages in. At the first level, small loans are granted to an individual. At the second level, lending is done through a nonprofit organization. The second level requires an annual agreement with the organization under certain regulations: the loan must be dispersed in four separate transactions, the loan must go to clients who don't have access to traditional banking services, and lastly the return rate must be at least 80% to continue the four-cycle lending process.[144]

In cooperation with the Tunisian Solidarity Bank, the Tunisian Post Office plays a critical role in the financial system. Within Tunisia there are an estimated 1,103 offices, all specializing in savings and microfinance activities. Although the Tunisian Post Office is not considered a microfinance institute, it cooperates with local microfinance institutes and the TBS to allocate funds for entrepreneurial activities. By providing basic banking services throughout Tunisia, the national Post Office works in collaboration with the BTS to ensure microfinance is a top priority within Tunisia.[145]

Legal Forms

Until 2010, Tunisia's microfinance regulations and restrictions were clearly stated within Law 99-67. Included in the limitations were interest rate regulations, e.g., maximum loan regulations associated with a maximum period of return. In accordance with microfinance institutes, it was required for a nongovernmental organization to access authorization through an extensive process from the Department of Finance in order to obtain a license to grant micro loans, oftentimes resulting in the departure of critical NGOs before the licensing process ended. In 2011, after the state revolution, the Tunisian government reformed the regulations and eliminated interest caps for microfinance institutes.[146]

In 2011, Inter-Arab ENDA and the Tunisian Bank of Solidarity signed a collaborative agreement establishing the Concerted Vision for the Development of Microfinance.[147] After signing the agreement, the Tunisian microfinance sector has slowly increased. The Concerted Vision for the Development of Microfinance constructed a new microcredit framework consisting of less restrictions and regulations, thus attracting international organizations to settle in Tunisia. Developing into the Decree Law 2011-117, the new framework explicitly stated that microfinance could be represented by two types of legal forms, limited companies and associations, while adhering to governance standards. In addition, microfinance companies were able to have complete internal control, consumer protection, and the freedom to operate as individual agents under the supervision of the Ministry of Finance.[148]

Conclusion

Throughout Tunisia's history, state governance was jeopardized by corruption, which created a false sense of hope for the country. Tunisia's past political and social history have established an economic system that is in desperate need of reformation. Past political interference in businesses, and regulatory barriers greatly affected the development of the economic system. Throughout the regime's leadership, Ben Ali was able to provide economic and social services and assistance as a means to enhance its legitimacy while preserving political stability and maintaining power over the people. However, as the unemployment rate and economic inequalities continued to grow, this authoritarian contract slowly failed, ultimately ending the regime's legitimacy.

As a result of the regime's restrictions and regulations, the microfinance sector remained undeveloped under the Ben Ali leadership, in order to prevent personal competition. The limited openness in the private sector, institutionalized under the Ben Ali regime, continues to be an issue. The microfinance sector can be effective in achieving economic improvements, as seen through ENDA Inter-Arab's success. However it is essential to focus on reforming domestic restrictions and regulations in order to attract private investment and microfinance institutes.

LEBANON

Introduction

Lebanon's financial development has been directly impacted by its long history of turmoil and instability. As a result of its colonial history and conflicts between its various ethnic and religious groups, Lebanon has had slow progress in economic development, especially in its microfinance sector. Political corruption has been at the forefront of Lebanon's developmental issues, which in return directly affects the overall structural reformation process. The unmet demand for financial support of entrepreneurs affects the nation's overall social and political progress. Moreover, the instability of the country's political and social sectors continues to have a negative influence on the microfinance sector.

Political History

Background Information

Sectarian turmoil coupled with political corruption is a reemerging theme within Lebanon. A factor of particular significance in Lebanon's development is the level of corruption that exists in its political system. In 2006, the Transparency International Corruption Perception Index, which serves as an indicator in determining the extent to which corruption exists amid politicians and public officials, rated Lebanon 3.6 out of 10. In 2001, the UN Office of Drugs and Crime released a report stating that more than 43 percent of the companies working in Lebanon "frequently" used bribes as a business tool, and 40 percent of companies admitted to "sometimes" using bribery as an effective means of operating.[149] In the World Bank Governance Data presented in 2005, Lebanon's rating for corruption control was 44.8 percent. In addition, a study done in 1995 by the World Bank notes that the perception of corruption has been embedded and "institutionalized in networks of protection, beyond the law, for self-dealing, bribes and the bartering of favors and influence".[150] The elites, specifically within Lebanon, consist "of a coalition of a socio-economic class of merchants and financers and the confessionally based Zu'ama (or traditional leaders)."[151] This means that the elites come from different ethnic and religious groups, learning to cooperate within the elite class, in order to achieve specific obligations. Stemming from a divided confessional system, the political atmosphere consists of wealthy elite who maintain substantial power within the country. As Gebara states, Lebanon's elitist system requires an elite consensus or "an elite cartel and cooperation among the members". Thus, Lebanon is characterized as a system of power sharing between the privileged members within the different sectarian communities.[152]

Since the fifteen-year civil war, Lebanon's factionalized government has been considered a consociational democracy. A consociational democracy is defined as a method for the elite to "turn a democracy with a fragmented political culture into a stable democracy".[153] Thus, the political elites within the system control the state's stability. Lijphart defines the four conditions that classify a state as a consociational democracy: 1) the ability of the elites to accommodate the interests of sub-groups; 2) the ability of the elites to cooperate in opposing sub-groups; 3) the commitment of the elites to maintaining the stability of the system; 4) the vigilance of the elites toward the challenges of political division (remembering that the interests of the elites as a whole must be a priority.[154]

Lebanon's political history has had a direct influence on its structural development. Under the French mandate, Lebanon was officially declared a French colony in 1920. From 1923 to 1926, uprisings against the French Mandate broke out as Lebanon attempted to become an independent state, free of French subjugation. The efforts of the Lebanese nationalists led to the establishment of a formal Constitution in 1926.[155] Following the drafting of the Constitution, Lebanon as a country was embarking on the concept of confessionalism. With the existence of multiple factions and religious groups, a confessional system allows political representation to be divided according to the demographic size of ethnic or religious groups.[156] Thus, the main religious groups, the Maronites, Greek Catholic, Greek Orthodox, Shi‘ites, Druze, and Sunnis must all have equal representation in the national government.[157] In an effort to create an independent state, the French created the National Pact, which was included within the 1926 Constitution. The National Pact designated Lebanon as an independent country with various religious sects, but proposed an Arab foreign policy much like its neighbor, Syria.

In 1943, after a tenacious fight against the French, Lebanon was officially declared an independent state. However, throughout the time of the Lebanese mandate, France had orchestrated a political system that left Lebanon dependent on French rule; thus, under an independent system, Lebanon would eventually be forced to rely on French guidance. Furthermore, as Lebanon’s newly elected government officials took office, inadequate training resulted in insufficient self-government.[158] Bishara al-Khuri, Lebanon’s first president after gaining independence, governed through a system of patronage, rewarding his followers rather than implementing the law.[159] President al-Khuri and his collaborators set a precedent for Lebanon’s political sector. In an attempt to maintain the status of the nation’s elites, and to help insure that the patronage system remained unchanged, prominent families were installed in government offices to regulate the nation’s economy. Instead of opposing the dominant power groups, the president elected them into power as a means to enhance his control over economic factions. As corruption dominated the economic and political spheres, “electoral feudalism” hindered Lebanon's social development.[160] Fraud and manipulation remained effective tools of government as the citizens considered the patronage system, though corrupt, to be a more stable and reliable entity than foreign intervention.

In an attempt to eradicate the corrupt political administration, a Socialist party was formed in opposition to the al-Khuri regime. Backed by considerable support, the group was able to organize massive rallies and protests throughout the country challenging the government's power. In 1952, after a series of strikes throughout the region, Camille Chamoun was elected president, with Khalib Shihab as Prime Minister. Together, Shihab and Chamoun worked towards modernizing the national government, free of corruption. Within six months of being appointed, Prime Minister Shihab had released 300 employees, and issued fundamental acts that would provide an independent judiciary for Lebanon; the acts defined the administrative government positions, established free press laws, created distinct electoral districts, and allowed women to vote.[161] In addition to the reform acts, the new government began working with the United States for support of development projects in the agricultural sector. Similarly, the Lebanon government was working in collaboration with the Syrian government towards issuing an economic agreement.[162] However, as Chamoun's reformation and developmental plans were underway, regional instability, caused by sectarian conflicts, hindered the president's attempt at a comprehensive reform. Attempting to eradicate the domestic turmoil, Chamoun resorted to the practices of previous government officials and determined to use a system of rewards, as former politicians had, in order to increase his control over the fragmented state. Due to his patronage practices, Chamoun gained support from affluent citizens who opposed changes to the system, while his reform plans failed.

In 1956, as turmoil spread throughout much of the Middle East, Lebanon's sectarian political divides created instability within the country. Initiated by Gamal Abdul Nasser, the President of Egypt at the time, the Arab unity movement within the Middle East was underway. As Arabism spread, Lebanon faced the choice of adopting new policies similar to its neighbors, or continuing its nationalistic efforts in cooperation with Christians. In opposition to President Chamoun's decision to remain independent from the Arab states, the National Union Front, consisting mostly of Muslims, was formed as a means to counter Chamoun's regime. Chaos ensued as the Lebanese government enacted authoritarian laws in order to govern the fragmented state.

As tensions grew within Lebanon, hostility towards the Chamoun regime continued to escalate. In May of 1958, Nasib al-Matni, a local newspaper reporter who, among many, had been critical of Chamoun's decisions, was murdered after supporting relations with the United Arab Regions. After finding his body covered in warning notes, it was evident that the government had threatened the reporter to stop his offensive messages opposing the government. This incident was the leading event in the national strikes, demanding Chamoun's regime to resign. Following the strikes, violence ensued throughout the country, resulting in the Lebanese government fighting against rebels demanding political transition, creating a state of anarchy. Through the chaos that ensued within the country, the emerging Progressive Socialist Party, led by Kamal Jumblat and backed by Syrian military arms, created the Druze militia, in an attempt to overthrow Chamoun's regime. Gaining followers throughout the nation, the Druze, in accordance with the Syrian and Egyption government, threatened to overthrow the president.[163]

Following American intervention to end civil strife in 1958, political reformation began.

It wasn't until September that Fu 'ad Shihab officially took office as Lebanon's newly elected president. As Shihab's presidency began, the citizens of Lebanon were optimistic about his promises to improve the economy and forge diplomatic relations with neighboring countries. However, as time went on, Shihab began to realize that conflicts within Lebanon were not merely a result of political opposition, but were primarily discord between conflicting religious sects. In 1959, President Shihab met with President Nasser of the UAR, and declared Lebanon's support for UAR on foreign affairs.[164] However, in 1964, after immense criticism by opposing groups, President Shihab resigned, and Charles Hilu took office, quickly replacing the former president.[165] During Hilu's first few years as president, tensions throughout the Middle East, especially between Lebanon's neighboring countries, began to increase. Palestinian guerilla regimes began to spread throughout the country causing an influx of violence within the region. In addition to the ongoing violence within Lebanon, regional turmoil escalated in 1967 when Lebanon's neighbors, including the Syrians, Egyptians, Jordanians, and Palestinians, went to war. Even though Lebanon had no involvement in the war, the increasing Palestinian presence within Lebanon caused an escalation of disputes between the Arab states. As time went on, the Palestinian presence outraged many Christians in Lebanon. As support for an Arab national movement spread throughout the state, fighting between the Lebanese military and Palestinian militias heightened in 1970, leaving the country in shambles.[166]

In September of 1970, Lebanon gained a new president, Suleiman Franjieh. Within his first year of taking office, strikes broke out as a symbol of political opposition by sectarian groups. In addition to the strikes, which demanded economic reform, the newly appointed government was faced with pressure of radical nationalism from neighboring states.[167]

Moreover, the Lebanese Christians and the Lebanese Muslims refused to cooperate with each other, creating a divided nation comprised of radical militias.[168] Between 1970 and 1975, Lebanon experienced extreme turmoil due to the excessive sectarian violence. The Civil War arose over the dilemma of Lebanon's future: to become an Arab state, or remain true to its historical roots. However, as the war ensued multiple factions became involved, causing the conflict to intensify; military organizations, splinter groups, and militias wreaked havoc on the minimal civil society that still existed.

After five long treacherous years, the people of Lebanon believed that the war was coming to an end as cease-fires were recognized throughout the country.[169] However, in 1976, after numerous clashes broke out in northern Lebanon, Syrian officials sent 30,000 soldiers into Lebanon as a means to control the Palestinians within Lebanon. As the war continued, Syrian intervention, supported by Israel, had created a state of chaos within Lebanon, and by 1980, Lebanon's population had diminished by more than half a million.[170] After this second period of its ongoing civil war, Lebanon was not only left with more domestic conflict than before, but also experienced an increase in outside invasions. Between 1977 and 1982, Lebanon suffered many invasions by neighboring states, which ultimately led to what many people call the Lebanese "Permanent War".[171]

Peace seemed impossible to accomplish within Lebanon. Conflict occurred as a result of outside forces, such as Syria and Israel, intervening in Lebanese territory. As the desire for territory grew, Lebanon continued to be a country occupied by outside forces.[172] In addition, growing guerilla forces led by the Shi'ite militias and Hezbollah groups began emerging throughout Lebanon; as a result, terrorism rapidly increased. A wide range of organizations, militias, factions, and military sects promoted the fighting for various reasons. Political power and territory were major factors contributing to the external war, but the internal fighting continued because each faction made it a priority to extend the bloodshed.[173] The war continued until 1989, when the Taif Agreement, which stated that Lebanon was an Arab state, was signed and ratified.[174] In January of 1990, Lebanon began to move towards ending the fifteen-year civil war; the Lebanese army began to reclaim its territory, domestic engagement began to stabilize, and the Lebanese government was finally beginning to regain authority.[175] In 1991, Lebanon's government began recreating ties with its neighboring countries as a means of reestablishing itself as a sovereign state. In 1992, Lebanon held its legislative elections, which resulted in former warlords and businessmen attaining government positions.[176] As the elite manipulated the state, corruption became the pivotal means by which peace was accomplished. The post-war situation within Lebanon was defined by institutionalized corruption and regulated economic activities.

Years after the National Pact was enacted, conflicts between Hezbollah and the Israelis continued. In 2000, Israel withdrew its troops after 18 years of occupation. Following the withdrawal of Israel in 2005, Syria withdrew its troops after Syrians were blamed for the assassination Rafik Hariri. The assassination served as a catalyst for anti-Syrian rallies throughout Lebanon, leading to hostility towards Syrian presence. In the last 10 years, Lebanon has been dealing with ongoing conflicts attributed to Hezbollah and Israeli forces. In 2006, Hezbollah created an influx of conflicts with Israel, initiating hostility within the region. In addition, as Syrian refugees continue to immigrate into Lebanon territory, Syria's national war causes internal discord within Lebanon. A replay of history is developing within the Middle East, as sectarian tensions and hostility continue to grow.[177] Reemerging political violence, coupled with sectarian fighting stem directly from Lebanon's colonial past. As the present unfolds, the collective memory of weak state institutions governed by sectarian politics begins to emerge within Lebanon.

Social History

Economic Sector

From the years 1950-1974, Lebanon was overall economically sound, but faced various difficulties in sustaining economic development as a result of its political conflicts. As mentioned before, when President Chamoun came into leadership in 1952, the wealthy elite controlled the economic sector, establishing a system of corrupt practices for future politicians. With the help of affluent political figures, the private sector developed quickly and abundantly, leaving the public sector notably underdeveloped.[178] As a result of Lebanon's simple exchange rate and lack of restrictions, foreign investments increased, creating national economic stability.[179] However, as the state became more politically and socially divided, internal discord escalated, ultimately generating a costly civil war and leading to the collapse of Lebanon's economy.

As a result of the fifteen-year war, Lebanon's economic development was considerably hindered. During the war, physical capital, including factories, transportation, public establishments, and farms, were either damaged or destroyed, ultimately decreasing the national income while increasing widespread unemployment.[180] In 1991, a year after the war, the total destruction of physical assets was estimated at around $26 billion, leaving nearly 50 percent of Lebanon's population homeless.[181] Additionally, the nation's private sector was nearly shattered; the Lebanese banking sector was completely destroyed, resulting in a decrease in foreign investment and domestic banking practices.[182] In 1990, after the civil war ended, Lebanon's GDP was nearly one third of its level a year before the war broke out; it was evident that Lebanon was in desperate need of an overall structural reformation.[183]

The political transition period in Lebanon following the war was nearly nonexistent as militia leaders continued to control factions of the state. In an attempt to establish regional stability, the dominant warlords were designated positions in the post- war government.[184] Picard, describing the corruption within the Lebanese government after the war, states:

> [H]aving become ministers, parliamentarian, and top-ranked civil servants, the warlords established their influence over economic matters in general and over the vast project of national reconstruction in particular. Their control over public and private foreign aid gave them exceptional leverage to broaden their clientele and thus to renew their own legitimacy.[185]

In 1992, Rafiq Hariri was elected Prime Minister after receiving recognition for his institutional reform plans which promised macroeconomic stability, restoration of infrastructure, and decrease in national debt.[186] Hariri's reconstruction plan, Horizon 2000, was created to alleviate the developmental issues that Lebanon had acquired throughout the fifteen-year war.[187] Hariri's attempt at reconstruction ultimately failed due to the ongoing violence that ensued within Lebanon, as well as the corruption that took place in the political and financial sectors. In an attempt to prevent corruption and enhance economic and political stability, the illicit wealth law was enacted in 1999. In essence, this law prohibited the use of bribes and endowments by public officials.[188] However, the law was determined to be inefficient and inadequate; since the establishment of the law, there have been no charges against any public officials. In addition to the illicit wealth law, the Lebanese government, with the help of The United Nations Center for International Crime Prevention (UNCIP), enacted a National Integrity Steering Committee (NISC), in order to take action against corruption. Again, the Lebanese government eliminated the plan within a year, claiming that it was ineffective and unnecessary.[189]

After years of declining economic growth, ongoing domestic turmoil, and minimal attempts at overall reformation, an international conference was held in 2002 to assist Lebanon in its socioeconomic crisis.[190] The Lebanese government presented a plan for reconstruction, coupled with a privatization plan operating around telecommunications, in which it would generate the revenue to pay off the nation's substantial debt accumulated during the war. Ultimately, the Lebanese government received financial support from the international community and continues to strive for a complete economic reform; however corruption and unaccountability remain a hindrance to overall structural expansion.[191]

Current Situation

Policies

As a result of ongoing political instability, Lebanon's economic condition is extremely complex. As previously mentioned, Lebanon's post-war economic developments continue to be exceedingly immature. Financial sustainability is nearly impossible to achieve by most Lebanese citizens who don't have political connections. In order to enhance control within the region, political leaders practice clientelism, a form of bribery to ensure support from constituencies; thus, if one is unable to assure support, specifically in an upcoming election, they are shunned from society without economic and social assistance. Moreover, leading companies with connections to political figures received major payouts after the war, again raising the question of legitimacy and corruption within the political sphere. Furthermore, "the use of public funds for private means, clientelism, kickbacks, and abuse of power and influence for financial gain" continue to hinder Lebanon's developmental progress.[192] This continues to emphasize the need for accountability within Lebanon's political sector, in order to achieve sustainability throughout the region.[193]

The power that the political leaders maintain within their individual districts exacerbates the current financial setbacks that Lebanon is faced with today. High unemployment rates and growing poverty levels have encouraged the post-war government to regain control and stabilize the nation economically. However, the private sector continues to be operated exclusively by the major profitable companies. Emerging monopolies, which have direct linkages to political leaders, dominate the economic sector. As the income gap increased, the post-war government enacted a fiscal policy, reducing the income tax to around 15 percent, from 45 percent before the war. However, because the wealthy citizens refuse to pay an income tax, the policy only worsened the income inequality and raised the public debt.[194] In addition, the government's public expenditure has raised various concerns; as the budget increased for public spending as a result of foreign aid, infrastructure and debt have yet to improve.

Lebanon's banking sector consists of 54 commercial banks, and 10 specialized banks.[195] Data has shown that since 2006, microfinance practices have significantly diminished in the rural areas of Lebanon. This emphasizes the high demand for an increase in microfinance in order to boost the nation's economy and increase the number of small enterprises operating throughout the region. Being one of the smallest microfinance industries in the Arab world, Lebanon's microfinance system lacks adequate infrastructure, effective lending methods, and efficient dispersion of institutions.

Following the war, the government was unable to restore the infrastructure in order to proceed with banking practices, as a consequence, microfinance suffered due to the lack of a solid foundation. In addition, individual loans are much more prominent in Lebanon's microfinance industry, making the loan market more competitive. In a group lending situation, 4 or 5 individuals would come together to apply for a loan, creating an easier means of receiving financial assistance, rather than competing against a larger class. Also, the practice of group lending serves as an evaluation process, as the clients choose a group in which they feel that each member is trustworthy.[196] Simultaneously, the dispersal of microfinance in Lebanon is concentrated in urban areas, rather than rural areas where the demand is much higher. As a result, the demand for micro loans within rural areas continues to increase, as the citizens in urban areas receive financial assistance. This is partly because citizens in the urban regions have a banking history; thus the microfinance institutions partnering with local banks want to ensure their clients are financially stable.[197]

Microfinance

As income inequality continues to grow within rural areas, economic disadvantages arise as a result of an undeveloped microfinance sector. Developments in Lebanon's microfinance sector have been protracted as a result of its perplexing political and social history. Because of its incessant instability, Lebanon's microfinance sector wasn't fully established until the late 1990s and continues to be extremely immature.[198] There is a high demand for microfinance in Lebanon, especially in the rural areas that receive little to no financial assistance from the government. There are roughly 20 microfinance institutes within Lebanon, however the microfinance market is dominated by three large microfinance institutes: Al Majmoua, AMEEN, and Al Qard Al Hassan.

Founded by Hussein Al Shami in 1983, Al Qard al Hassan, a microfinance institute with direct connections to the militia group, Hezbollah, continues to be the main source of microfinance in Lebanon. After joining Hezbollah in 1983, Mr. Shami took over its social services in 1984. Shami began lending small amounts of money out of his apartment, providing 150 micro loans its first year. After establishing itself a stable institution, Shami changed the name from "Bayt-al-Mal", translated to "House of Money", to Al Qard Al-Hassan, meaning "The Good Loan Association" in 1987.[199] Serving between 25,000 and 100,000 clients, and claiming to have given out over 200 million dollars in loans in a year, Al Qard al Hassan is viewed as an organization working for the Lebanese people. Unable to receive loans from Lebanese banks, citizens resort to Al Qard al Hassan for assistance instead.[200]

Established in 1994, Al Moujma assists approximately 12,000 clients a year, maintaining its sustainability through its successful procedures. Operating as a nongovernmental organization, Al Moujma offers developmental loans through group and individual lending.[201] Similarily, Ameen or Vitas, works as a financial institution providing microloans to nearly 12,000 clients a year mainly in the retail and service sector. Starting in 1999, Ameen began as a project focused on lending microloans to the poor. Today, Ameen has grown into an established financial institution that works directly with the banking sector in Lebanon to provide loans to approved citizens. Ameen's partnership with specific banks includes funding for loans, whether it is a portion of the loan, or the full amount.[202] Moreover, payments must be made at the bank, which in turn encourages clients to establish banking practices with the bank after the loan is repaid.[203]

Legal Forms

Currently, various factors affect the growth of microfinance in Lebanon. Political instability, as mentioned before, is the main factor underlying inadequate microfinance progress. Lebanese law allows any institution to engage in lending practices, without acquiring approval from the government. Most of the microfinance institutes act as NGOs, governed by the Ministry of Interior. Regulations for NGOs are limited, allowing institutional freedom to operate as an individual entity. Monitored through the Central Bank, financial institutions and banks are authorized to grant loans individually, or through a partnership with a microfinance institute.

In addition, Hezbollah, as mentioned before, continues to play an active role in the microfinance process. Involvement in Al Qard al Hassan allows Hezbollah to have access to poor citizens during their most vulnerable times. For example, after the war with Israel in 2006, Hezbollah distributed more than $180 million to those who were affected by the war, in an attempt to gain the support of the Lebanese citizens. In response to Hezbollah's role as benefactor, citizens who had previously opposed the organization began to support Hezbollah's actions. One mother, who had used the money to help pay off her children's education fees, says that she now views Hezbollah as a saving grace, and donates to their cause whenever feasible. Furthermore, Lebanese supporters admire Hezbollah's role in fighting for their country, in addition to providing social services.[204] Today, Mr. Shami, the founder of Al Qard al Hassan, provides social assistance, ranging from clogged drains to medical help, leveraging his power within society while instilling a sense of confidence among the people.

Conclusion

Lebanon's long history of turmoil has been a major factor contributing to its economic issues. After the colonization period, Lebanon was in a fragmented state resulting in high levels of corruption and political division. After the its fifteen year civil war, Lebanon experienced an economic decline that allowed powerful sectarian groups to take control of the government. As the leading elite gained power, sectarian conflicts continued within Lebanon, leading to the emergence of the militia organization, Hezbollah. Developing throughout the years, Hezbollah has maintained its power as a dominant force within the country. By providing social and financial assistance, Hezbollah has gained support from the Lebanese citizens, while also undermining legitimate microfinance institutes.

Lebanon’s sectarian divides and fragmented political system have directly influenced the economic developments throughout history. In addition, corruption continues to dominate the political and public institutions as an instrument of political power. The sectarian mindset coupled with a divided government after the war permitted the use of corrupt activities. Thus, the continuation of corrupt practices results in a decrease in investments, ultimately limiting the use of its human capital and restraining economic developments within Lebanon. The main priority today is eradicating corruption, eliminating class barriers, and promoting political transparency in order to increase microfinance within the region. The demand for microfinance continues to grow especially in rural areas; however due to certain unmet conditions, Lebanon’s microfinance sector remains immature.

CONCLUSION

Thesis Statement

The history of a country- including, in particular, its political and social history- plays a critical role in determining the fate of microfinance. In an autocratic state in which wealth is concentrated in the ruling elite, microfinance will be largely absent. In an autocratic but liberalizing society in which the state is providing upward mobility through the bureaucracy, microfinance will be present but weak, because there is little motivation for entrepreneurship; additionally, there is the danger of revolution if the bureaucracy collapses. In a failed or failing state, microfinance will exist, and may even be extensive, but will largely be concentrated in terrorist organizations.

Research Design and Review

The present study was composed of four major sections: the “Research Proposal”, and the individual state chapters: “Algeria”, “Tunisia”, and “Lebanon”. The Research Proposal was the following: A comparative study of three MENA (Middle East and North Africa) countries--- Algeria, Tunisia, and Lebanon--- analyzing the impact of each state’s social and political history on its economic development, including in particular its microfinance sector. The research provided evidence that the political and social history of a state does indeed strongly affect the success of its microfinance sector.

It’s difficult to underestimate the significance of political and social history for the value of microfinance as a poverty-alleviation tool in developing countries. Specifically, factors such as the degree of government centralization, overall stability of the society, and the possibility of upward mobility can all have an effect on the state’s economy in general and microfinance in particular. The viability of locally sensitive lending organizations is contingent on not only the colonialism from which the countries emerged, but also on the political and social conditions of the post-colonial experience. In the three cases that were examined, Algeria, Tunisia, and Lebanon, French colonization affected the growth of financial sustainability, but the conditions that followed independence, were the main factors in determining the state's economic progress for future years. A variety of social and political challenges of the past have made it extremely difficult for the countries to implement overall reforms, ultimately hindering progress within the economic sector, resulting in immature microfinance development.

Variables Country	Political History	Social History	Current Economic Policies	Microfinance
Algeria	-Tight state control -Political Discontents	-132 yrs colonization -War - Reliance on French	-Tight State Control -Centrally Planned Economy -Government Power	-Algérie Post
Tunisia	-Repressive State -Corruption -Political Instability	-High Unemployment -Income Gaps -Reliance on EU -Economic Inequality -Revolution	-Strict State Regulations	-ENDA Inter-Arabe
Lebanon	-Political Corruption -Political Sectarian Divides	-Outside Intervention -Sectarian Conflicts -Terrorism -Elite Control	-Private Banking Sector/ Commercial Banks -Bribery -Hezbollah	-Al Qard al Hassan

Table 1: *Country's History in Regards to its Current Economic Policies and Microfinance*

This table illustrates the comparative nature that exists between the three countries in the MENA region. In Algeria, political discontent heightened as the state's control increased, ultimately resulting in mass protests throughout the region. In Tunisia, two major governments, the Bourguiba and Ben Ali regimes, were characterized as state bureaucracies with substantial power. Political opposition grew as the Ben Ali regime's repressive and corrupt political practices continued to affect the economic sector at the lowest level, creating instability throughout the region. In the same way, Lebanon's political history consisted of ongoing political corruption throughout its history. In addition to substantial political corruption, political sectarian divides have affected the state's development throughout the years. In all three countries, past political conflicts, stemming from government control and corruption, have hindered the social history, thus affecting economic developments within the states.

As the research indicates, the impact of social history, colonization, wars, and economic factors significantly affected the microfinance sector in all three states. After 132 years of colonization, the French directly influenced Algeria's social system. After the Algerian War, state instability encouraged the government to instill reformation plans that emphasized industrialization while subsequently creating income gaps. As wage inequality grew, political opposition increased as unfair income distribution spread throughout the nation. In comparison to Algeria, Tunisia's social history consists of similar aspects such as high unemployment, extreme income gaps and reliance on outside factors. However, in Tunisia's case, as the educated youth began to oppose the government's strict regulations, the Jasmine Revolution occurred as a result of economic inequality throughout the region. The influence of outside intervention coupled with sectarian divides encompassed Lebanon's social history, while creating a social system based on patronage and elite manipulation. Terrorism is another major factor that has played a role in shaping Lebanon's social system. Algeria's strong French influence, and Tunisia's reliance on the European Union have caused conflicts throughout history, thus affecting its state restrictions and regulations. Lebanon's social system is significantly influenced by the terrorist group, Hezbollah. As Hezbollah's influence continues to grow, the demand for microfinance decreases. It should also be noted that in all three states, the social history of instability throughout the region, significantly hindered the development of microfinance.

In Algeria, the main issues related to its economic sector are directly linked to the state's control on the financial system. The substantial power that the government has over its financial sector discourages microfinance institutes from investing in the state as restrictions and regulations increase. Likewise, Tunisia, before the Jasmine Revolution, had the same issues that Algeria faces today. The Ben Ali regime went as far as dictating legislation that would increase its power, while eliminating any competition that threatened the clan's interests. As state instability increased, foreign investment decreased. After the 2011 Revolution, Tunisia's economic restrictions began to liberalize, however microfinance institutes continue to be skeptical of the countries' policies, thus hindering future developments. In Lebanon, similar issues arise, however the strong Hezbollah presence continues to dictate the majority of the economic sector. Bribery and clientelism continues to be a powerful tool for government officials, as well as terrorist organizations. In addition, the affluent private banking sector, consisting mostly of large commercial banks, continues to dominate Lebanon's economic sector, assisting the growth of the elite within the state.

The main microfinance institute within Algeria continues to be the government organization, Algérie Post. Because it is one of the only microfinance institutes within Algeria and continues to dominate the microfinance sector, Algérie Post is free to operate as it wishes under certain government regulations. Strict state regulations affect the growth of microfinance within Algeria as the demand for lending agencies increases. As a result of its past colonial history, Algeria has created a financial system that is unable to benefit the poor because of tight government control and restrictions on foreign investment. The arduous fight for independence instilled a lack of trust within the Algerian system, which ultimately resulted in authoritarian-like financial restrictions, in return preventing developments in the microfinance sector. The major microfinance institute in Tunisia, ENDA Inter-Arabe (ENDA), was drastically impacted by the Jasmine Revolution in 2011. However, after restoring its cliental base and receiving financial assistance, ENDA is now free to compete in the economic sector after the Ben Ali regime was overthrown. Allowing microfinance institutes to work without the restrictions enforced during Ben Ali's presidency has increased the microfinance presence within the region. In Lebanon, the microfinance institute, Al Qard al Hassan, regulates most of the microfinance sector through substantial funding from the terrorist group, Hezbollah. Al Qard al Hassan has been successful as a result of inefficient lending practices by local banks. State owned banks have made it difficult for the poor to receive financial assistance, so as the demand for micro loans increases throughout the rural regions, the citizens rely on loans from Al Qard al Hassan.

Conclusions and Suggested Further Research

The political and social histories of Algeria, Tunisia, and Lebanon all had a profound affect on overall developments within each state. It is evident that there are specific aspects that influence microfinance in certain areas, and history is the leading factor. Sustainable development stems from political and social events of the past; thus the microfinance sector may play an important role in enhancing financial sustainability, especially in certain rural regions. However, it should be noted that the intention of all microfinance institutes isn't strictly poverty alleviation, as demonstrated with Al Qard al Hassan in Lebanon. Al Qard's financial assistance works to alleviate poverty, but also intends to gain support for Hezbollah, the primary funder of its operations. Now that this has been addressed, many questions arise over the true role that microfinance institutes play in developing nations. The focus of this research was to identify whether or not social and political history directly affects the development of microfinance in the

MENA region, specifically in Algeria, Tunisia, and Lebanon. For future research one can ask, what are the factors that contribute to the success of microfinance in certain regions? In addition, if state policies were reformed and modernized, would microfinance have a better chance of success, or are the economic traditions embedded within a state? And is the role of terrorist organizations growing as a result of immature microfinance? And can microfinance be successfully sustained in a state with an authoritarian government? Answering these questions will provide future research on the role of microfinance, and ways to ensure its success in developing countries.

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