

**HOW TO ATTRACT FOREIGN DIRECT INVESTMENT TO INVEST  
IN HOUSING IN LIBYA**

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## **Declaration**

I declare that the research contained in this thesis was carried out by me. It has not been previously submitted to this or any other Institution for the award of a degree or any other qualification.

Signed:.....

Date:.....



## **Abbreviations**

- BPC Basic People's Congress in various districts.
- CBL Central Bank of Libya
- CNL Caisse Nationale du Logemnt (France) National Housing Fund
- CSF Critical Success Factors
- DLCB Department of Loaning in Commercial Banks.
- DLSREIB Department of Loaning in Saving and Real Estate Investment Bank.
- FDI Foreign Direct Investment
- GAAT General Agreement on Tariffs and Trade
- GAH General Auditor of Housing (Minister Position).
- GCP General Council of Planning
- GCPS General Councils of Planning in various Shabiat (administrative areas)
- GDP Gross Domestic Product
- GPC General Planning Council
- GPCHUS General People's Committee of Housing and Utilities in various Shabiat.
- GPCP General People's Committee of Planning.
- GUD Grand Unified Debugger
- HACAS Housing Authority of the City of Austin
- IFAD International Fund for Agricultural Development
- IMF International Monetary Fund
- J. V Joint Ventures
- LPCG Local Planning Councils in governorates
- M&As Mergers and acquisitions
- MNCs Multi-National Companies
- NDS National Design Specification
- ODI Office of Defects Investigation
- OECD Organisation for Economic Co-operation and development
- PCGI Provider Of Information Technology Services

- PCHUG People's Committees for Housing and Utilities in the governorates
- R&D Research and Development
- TNCs Transactional Corporation
- UK United Kingdom.
- UN United Nations
- UNCHS United Nations Centre for Human Settlements (Habitat)
- UNCTAD United Nations Conference on Trade and Development
- UPS Urban Planning in various Shabiat
- US United States of America

# ABSTRACT

In spite of the large oil revenues of Libya many national problems have emerged. One of these problems is the large shortage in the housing sector. Although Libya has tried various initiatives to solve the housing problem, it could not overcome this dilemma on its own. Some analysts argue that this problem can probably be solved by international cooperation. And in light of the fact that Libya has started a new era of openness and cooperation, it has issued several important laws to attract foreign investment in order to facilitate overcoming its problems, including the housing sector.

This research is intended to study how to attract Foreign Direct Investment to invest specifically in the housing sector in Libya. An exploratory methodology has been adopted in this research, and multi-methods (qualitative and quantitative) are used to analyse multi-sources of data that comprise observation, semi-structured interviews, questionnaires, literature, and official documents. Triangulation analysis has been employed, which, is appropriate for multi-sources data.

The findings are:

- (i) foreign investors desire to invest in Libya when they know the nature of the investment environment because this will open new markets for their production and maximize their profits;
- (ii) Libya suffers from a real housing shortage and it can not overcome the problem through its own efforts despite its repeated attempts;
- (iii) Dealing with the housing sector will provide the opportunity to foreign investors to enter other sectors such as infrastructure;
- (iv) A portfolio approach to the purchase of assets regardless of the type is not included in this study, whilst it may be appropriate for FDI.

The final results of this research could assist Libyan decision makers to take serious steps to attract Foreign Direct Investment for the improvement of the Libyan housing sector. Recommendations for further research are made in the conclusion chapter. The research findings contribute to the development of a model to encourage international investment in the Libyan housing sector, paying special attention to its special nature and reducing the associated risk ratio.

**Keywords:** Foreign Direct Investment, Housing, Libya



**CHAPTER ONE**  
**INTRODUCTORY**

## INTRODUCTION

Governments of all political leanings show an interest in their housing sectors, since housing touches people's lives directly. In socialist countries, governments take care of everything including housing. However, capitalist governments are also keen to improve their housing sectors. For instance, both Conservative and Labour governments in the United Kingdom have concentrated on housing at times of closely fought elections demonstrating how important politics has been to public housing investment. In the UK both Conservative and Labour parties attempt to draw as many voters as possible towards them at election time through highlighting this priority.

*"From the immediate post-war years there was a major political commitment to providing extra housing and the up-swing in the 1940s reflects the Atlee labour government's attempts to increase council housing building, despite severe labour and material shortages. An important factor in the 1951 election was the continuing housing shortage and the incoming Conservatives promised to overcome it, a pledge they kept by starting the greatest number of council houses ever in the years after they won" (Ball, 1996, p14 ).*

This characteristic still survives into the third millennia, "Housing investment may not be the top of manifesto lists but politicians still keep a weather eye on it" (Ball, 1996). This is a concern because of political, social, and economic reasons.

However, despite this political attention to providing housing particularly in third world countries, several problems still face many countries such as providing infrastructures, education, and health care services and Libya is one of these countries. One of the most important difficulties in Libya is housing, which manifests itself in a shortage of housing as a result of insufficient finance where the expenditure ratio on housing in development plans decreased from 25.7% in 1970 to 9.1% in 1992 (General Committee of Planning, 1997). In addition, the General Council of Planning report highlights that there are also finance difficulties faced by the housing sector (General Council of Planning, 2002).

This research deals with the housing problem in Libya in general, and discusses in particular the estimation of supply and demand functions. It surveys the attempts, which Libya has made to solve the housing problem and their results, and consequently makes a survey of the procedures adopted by Libya to attract international investment in a potential solution of the problem. It then considers what Libya did to attract international investment for this purpose in the light of legal statutes, political movements, economic procedures, and the circulation of foreign investment.

Although there are large revenues in Libya due to the rise in oil prices over the last decade - where average sale prices of crude oil increased from 17.23 US Dollars per barrel to 39.13 US Dollars per barrel (Central Bank of Libya, 2005: 43). Libya faces a large shortage in the housing sector, which has reached 450,000 units. As Dr. Shukri Ghanim the Secretary of The General People's Committee 2003 - 2005 (Prime Minister) mentioned in his speech to The General People's Congress (The Parliament) at the end of 2005.

This housing shortfall results from three major factors. Firstly, there are social changes in demographic development. For example, the huge increase in population growth that is at 4% in some years as can be seen in table (1.1).

**Table 1.1: the Annual Censuses in Libya during 1954 - 1995**

Year of census	Libyan	Non-Libyan	Total	Annual Increase %
1954	1,041,599	47,274	1,088,873	//
1964	1,515,501	48,868	1,564,369	3.6
1973	2,052,372	196,865	2,249,237	4.1
1984	3,231,059	411,517	3,642,576	4.4
1995	4,389,739	409,326	4,799,065	2.5

Sources: 1) The Secretary of General People's Committee of Economic Planning, results of census for 1984, table (1) pp. 75.

2) National Board for Information and Documentation, the Final Results of census for 1988, table (13), pp 40.

3) National Board for Information and Documentation, the Vital Statistics for 1995, table (3) pp 3.

And the number families are becoming bigger because of a social system that favours early marriage. As can be seen in table (1.2) the families' numbers rose



from 387,043 families in 1973 to 727,523 families in 1995, in spite of the fact that numerous people postponed marriage through being deprived of housing.

**Table 1. 2: Developed of Families' Numbers 1973 – 1995**

<b>Year</b>	<b>Number of Libyan Families</b>	<b>Number of non-Libyan Families</b>	<b>Total</b>
1973	346,739	40,304	387,043
1974	356,794	48,654	405,448
1975	367,141	50,065	417,206
1976	377,788	51,517	429,305
1977	388,744	53,011	441,755
1978	400,018	54,548	454,566
1979	411,619	56,130	467,749
1980	423,556	57,758	481,314
1981	435,839	59,433	495,272
1982	448,478	61,156	509,634
1983	461,484	62,930	524,414
1984	476,463	77,711	554,174
1985	490,280	66,856	557,136
1986	504,498	68,795	573,293
1987	519,129	70,790	589,919
1988	534,184	72,843	607,027
1989	549,675	74,955	624,630
1990	565,616	77,129	642,745
1991	582,019	79,366	661,385
1992	598,898	81,668	680,566
1993	616,266	84,036	700,302
1994	634,138	86,473	720,611
1995	652,528	74,995	727,523

Source: Shamiah A. & Kaebah M 1996, population growth and its impact on the housing market in the Libyan Economy.

In addition, table (1.3) indicates the increase in the number of marriages, which reached 33,323 marriages in 2002, since in Libyan culture people put marriage and establishing family as the top priorities and the typical marriage age was between 22 and 27 for males and 18 to 22 for females.

**Table 1.3: Numbers of Marriages in Libya during 1990 – 2002**

Year	Number of marriages
1990	20,451
1991	21,254
1992	21,646
1993	14,681
1994	19,190
1995	21,358
1996	18,743
1997	20,089
1998	19,051
1999	19,348
2000	27,655
2001	28,661
2002	33,323

Source: National Board of Information and Documentation (2002)

Secondly, there are economic factors that affected the housing sector, such as the government stopping public expenditure on housing, as mentioned in the report of the General Council of Planning (2002) which says that one of most crucial reasons for the housing shortage is the state abandoning its role as guarantor to provide housing. Moreover, at the same time the private sector completely stopped investing in housing, since law No (4) of 1978, prevented renting houses. Accordingly, Libyan commercial banks reduced the number and the amounts of loans that were given for housing.

Thirdly, there are political reasons, essentially relating to the fact that an American airliner was blown up over Lockerbie, Scotland in 1988. Additionally, a French airliner was bombed over Niger in 1989, and Libya's implication in these events brought sanctions from the United Nations. The consequence of this was that foreign construction companies left the country and importing materials became significantly more difficult. Moreover, these sanctions also affected oil exports which led to a decline in revenues due to the fall of the quantity of oil exports.

## **1.2. A GENERAL VIEW OF LIBYA**

Libya is one of the world's Arab countries that occupies a strategic geopolitical location in the middle of North Africa, and which has a long Mediterranean coast of about 2,000 km. In total, it occupies nearly 1,774,440 sq kms. A population survey in the general census of population, 2006, gave an approximate estimation of 5.7 million residents; 5.3 million of them are Libyan people. The housing stock numbers 961,846 units, and the family average size is 5.9. (National Board for Information and Documentation, 2006). On the 24<sup>th</sup> December 1951, Libya became an independent state named The United Kingdom of Libya. It changed to a republican system after military officers led the September Revolution in 1969, after which the name of country changed to the "Libyan Arab Republic", and a later change in 1977 brought a new official name - "The Socialist People's Libyan Arab Jamahiriya" (Saleh, 2001).

### **1.2.1. Libyan Economy**

Libya has seen a large change in its economy since it gained independence. A study of the Libyan economy can be divided into three main periods (Sheibani, 2004):

#### **1.2.2. The Period before the Discovery of Oil**

Libya was one of poorest countries in the world before oil was discovered towards the end of the 1950s. Its economy was extremely poor, and it depended upon foreign aid from various organisations and from countries such as the United States of America, and the United Kingdom. Table (1.4) provides a summary of relevant information.

The total GDP of Libya did not exceed 5.5 million Libyan pounds by 1955, and as can be seen from Table (1.4), there was over 50% reliance on foreign aid in some years (World Bank, 1960).



**Table 1.4: Summary of Public Finance in Libya**  
**For the Period 1954/55 – 1958/59 in Thousands of Libyan Pounds**

Item	1954/55	1955/56	1956/57	1957/58	1958/59
Expenses	7,897	12,978	15,433	17,031	19,179
Local Revenue	5,549	7,061	8,147	9,595	12,049
Foreign Revenue	5,641	6,270	4,234	12,069	11,045
Total Revenue	11,190	13,331	15,381	21,664	23,094
Balance	3,293	353	-52	4,633	3,915

Source: World Bank for Construction and Development, 1960, pp 233.

(\$1 = 0.28 LD)

### 1.2.3. The Period after the Discovery of Oil To 1969

After the discovery of oil, the Libyan economy became dependent on oil exports; the GDP increased from 155.5 million Libyan pounds in 1962 to 1,223 million Libyan pounds in 1969, as is shown in Table (1.5). As the crude oil exports increased, many new economic activities emerged, existing cities were extended, and new cities were created as a result of the immigration of the nomadic population into areas where they could participate in those economic activities.

### 1.2.4. The Period after 1969

This period can be divided into two stages, the first one from 1969 to 1984, and the second stage from 1984 until the present time. After the September Revolution in 1969, Libya experienced large changes in all economic activities, due to the enormity of the oil export revenues. The country became prosperous, trade was active, industry became more efficient, and land was allotted to farmers. It can be seen from Table (1.6), that the GDP reached 10,277.3 million Libyan Dinars in 1980 (Sheibani, 2004), although it began to imitate a socialism system in 1977.



**Table 1.5: Gross Domestic Product Developed in the Oil Sector  
Compared with other Sectors for the Period 1962- 1969**

Million Libyan Pounds\*

Year	GDP	Oil Sector	%	Other sectors	%
1962	155.5	38	24.4	117.5	75.6
1963	253.5	99.6	42.3	153.9	57.7
1964	364.6	195.7	53.7	168.9	46.3
1965	492.1	270.1	54.9	222	45.1
1966	634.9	356.1	56.1	278.8	43.9
1967	747.8	402.5	53.8	345.3	46.2
1968	1,072.6	648.6	60.5	424	39.5
1969	1,223	754.7	61.7	468.3	38.3

Source: General Public Committee Secretariat, 1987.

\*Libya changed its currency to Libyan Dinars after September 1969; the Libyan currency exchange rate was fixed by US dollars (\$1 = 0.28 L.D) until 1991,

**Table 1.6: The Development of Libyan GDP  
During 1970-1985 in Million LD**

Year	GDP	Year	GDP
1970	1,228.3	1978	5,496.1
1971	1,586.5	1979	7,603
1972	1,753	1980	10,277.3
1973	2,182.7	1981	8,869.1
1974	3,795.7	1982	8,780.6
1975	3,674.3	1983	8,481.9
1976	4,768.1	1984	7,681.1
1977	5,612.7	1985	8,050.2

Source: Secretariat of Planning (1987).

(\$1 = 0.28 L.D)

In the second stage from 1984 Libya was implicated in several political problems, which attracted sanctions from the United Nations until 1997.

Consequently, the economy declined, as can be seen from Table (1.7), the GDP decreased to 6,577.4 million LD in 1986, development plans stopped when the amounts expended reached that allocated to complete previous plans, and the economic position in Libya worsened, where the unemployment ratio increased to reach 10.4% in 2001( Economic Research Center, 2002: 17). In addition, most industrial products during the period 2000-2001, have seen a negative growth; the iron and steel industry reduced by 30.4% and wires and cables reduced by 88.4% (Economic Research Center, 2002: 21).

**Table 1.7: the Development of Libyan GDP Developed  
During 1986- 2000 in Million LD**

Year	GDP	Year	GDP
1986	6,577.4	1994	9,670.8
1987	6,672.4	1995	10,672.3
1988	6,967.2	1996	12,327.3
1989	7,223.5	1997	13,800.5
1990	7,816.3	1998	12,610.6
1991	9,754.1	1999	14,075.2
1992	8,895.8	2000	17,620.2
1993	7,327.6		

Source: Secretariat of Planning (2002)

As a result of economic and political events in Libya in the last two decades Libya adopted new economic policies, including the exchange rate to float the Libyan Dinar against the dollar. Table 1.8 reflects exchange rates of Libyan Dinar against US Dollars after the flotation of the Libyan Dinar during the period 1992 - 2002.

**Table 1.8: Rates of Libyan Dinar against US Dollar**

<b>End of year</b>	<b>Exchange rate</b>	<b>End of year</b>	<b>Exchange rate</b>
1992	0.29771	1998	0.45154
1993	0.32155	1999	0.46077
1994	0.36066	2000	0.54340
1995	0.35268	2001	0.64409
1996	0.36410	2002	1.21063
1997	0.38674	2003	1.30187

Source: Central Bank of Libya, (2005)

### **1.3. THE HOUSING SECTOR**

Libya did not have a housing crisis until the beginning of the 1980s. Before this period this problem did not arise in the media and the phenomena of lease sale was not known in Libyan society. Legislation (Law 4 – 1978) then prevented the ownership of more than one house and prevented leasing.

Generally, a study of the Libyan housing sector can be divided into four main periods as follows:

#### **1.3.1. Before the Discovery of Oil**

Before oil was discovered in Libya, there was no real housing problem; despite an observable shortage in housing numbers and the spread of living in shanties; because the majority of Libyan people were nomadic, living in tents and roaming after the rains. Most urban development was concentrated in just a few coastal cities. Table (1.8) illustrates the shortage of housing in Tripoli City, the biggest city in the country, in which private construction of units did not exceed 1,883 units in 1962, and did not exceed 6,036 units in the whole period.



**Table 1.9: Private Residential Construction in Tripoli City 1957-1962**

Years	1957	1958	1959	1960	1961	1962
Number of units	792	864	767	862	868	1883

Source: (Awotona, 1990a)

### 1.3.2. After the Discovery of Oil to 1969

After the discovery of oil and the beginning of its exportation, the housing sector was reanimated as a result of great economic growth, new cities appeared and most of the nomadic population gradually migrated to the cities to work in the new companies which had been established there. Consequently, the housing demand increased, and in response, the government devised its First Five-year Plan 1963-1968. However, the housing expenditure was only 9.9% of the 1963 – 1968 budget. In contrast, public works, communications and agriculture came top of the priorities, where the expenditure of 1963 – 1968 budget were 29.2%, 17.7% and 12.7% respectively (Awotona, 1990a : 64). Additionally, private investors contributed by building and renting houses and the government also provided loans to those interested in the construction of owner-occupier houses on easy terms without interest. It also provided fully developed and serviced plots for citizens, free of charge, through the Real Estate Bank.

However, these measures were not enough, and people continued to swarm to the cities, thereby creating slum areas (Awotona, 1990a). During this period, the commercial banks and the private finance sector provided funds for housing.

### 1.3.3. The Period 1970–1978

In this period, the housing sector was characterised by great government interest, demonstrated by the building of thousands of public houses, the distribution of land to people, and the provision of loans for people to build their own houses. Table (1.9) indicates the actual expenditure on the housing sector in relation to the total actual expenditure for all sectors of the economy, which



reached more than 25% in 1970. In this period, the housing sector is seen as having the highest growth ratio. In addition, as Table (1.9) shows, the actual expenditure continued to increase despite fluctuations in the total expenditure of between 11.7% and 25.7%.

**Table 1.10: Actual Expenditure on the housing sector from the development budget**

Year	Expenditure on Housing (M LD)	Expenditure on all sectors (M LD)	%
1970	37.5	146.0	25.7
1971	39.4	247.6	15.9
1972	72.2	357.4	18.2
1973	60.9	413.8	14.7
1974	146.9	866.0	17.0
1975	128.3	923.2	13.9
1976	138.3	1187.2	11.7
1978	175.1	1280.3	13.7

Source: Gannous, (1999)

It should be noted that most of the development budget for the housing sector before 1971 was spent in Tripoli and Benghazi. The percentage of the actual expenditure of the development budget for the 1972 – 1973 fiscal years, for Tripoli and Benghazi had the highest share from the total expenditures (33.6% and 21.7%, respectively). (Awotona, 1990 b).

#### **1.3.4. The Period after 1978**

Housing problems began to appear after the implementation of Law 4 in 1978. The negative effects emerged in the early 1980s, when families started to increase in size presenting a population rise of more than 4% annually as mentioned earlier in table (1.1). At the same time, the government stopped its building activity due to UN sanctions and the decreasing of oil price. Moreover, private investment was prevented according to Law 4. Furthermore, the commercial banks reduced the number and value of loans. Table (1.10)

illustrates the decrease in the budget devoted to housing from the total National Development budget, and shows the reduction in the actual expenditure ratio in comparison with the previous period as cited in table (1.9).

**Table 1.11: Housing Budget as a proportion of the development budget, and actual expenditure ratio 1979–1988**

Year	Housing budget	Development budget	% Actual expenditure *
1979	166.0	1,573.0	10.6
1980	231.7	2,527.5	9.2
1981	288.2	3,000.0	9.6
1982	245.6	2,600.0	9.5
1983	217.6	2,370.0	9.2
1984	208.2	2,110.0	9.9
1985	168.6	1,700.0	9.9
1986	167.5	1,700.0	9.9
1987	142.0	1,450.0	9.8
1988	136.0	1,355.0	10.0

Source: Gannous, (1999)

\* Actual expenditure on housing to actual expenditure on all economy sectors.

## 1.4. THEORETICAL BACKGROUND

### 1.4.1. Introductory Literature Review

In spite of the absence of studies which deal with international investment and investment in housing as one issue, there is much literature that discusses each separately. Most economists, and International Monetary Fund (IMF) experts, who have been concerned with economic development, and who addressed both macro and micro economic issues have touched on the subject of investment, arguing that private investors aim to maximise profit, while society

seeks to maximize national income, regardless of its distribution (Buckley, 1990); (Brooks & Heijdra, 1991); (Monsen, 2004); (Ologunde et al, 2006). Therefore, a large number of published articles and books dealing with this subject are available such as macro and microeconomics textbooks, the Journal of International Studies, the Journal of Urban Studies, the Journal of Housing Research and IMF publications related to investment and housing... etc.

On other hand, the argument that studying the investment in housing requires exploring the impact of changes in the operating environment (such as altered tax laws, new government regulations or shifts in the economic climate) (Greer, 1997), requires a reading of official documentation. In addition, numerous specialist magazines concerning investment and housing are also useful. This research will concentrate on investment issues concerning housing, as the following indicates:

#### **1.4.2. The Importance of Investment**

Governments and other decision-makers try very hard to encourage investment in the full range of economic activities in order to achieve the highest levels of national growth. Investment is one of the elements in the income expenditure equation shown in the simplified form:

$$Y = C + I$$

While: Y is Gross Domestic Product (GDP)

C is final expenditure on consumption goods.

I is final expenditure on investment goods.

On the first side appears the national income through GDP, and on the other side is investment, and accordingly any increase in investment leads to a rise in GDP (for more details see (Begg, 1991); (Hillier, 1991); (Leslie, 1993); (Sloman and Sutcliffe, 2004)

#### **1.4.3. Investment Determinations**

Investment is the most volatile component of Gross National Product (GNP). When expenditure on goods and services falls during a recession, much of the



decline is usually due to a drop in investment spending (Mankiw, 1992: 440). Investment could be divided into three types of investment spending: (i) Business fixed investment includes the equipment and structures that business buy to use in production; (ii) Inventory investment which comprise goods that business put aside in storage, including materials and supplies, work in progress, and finished goods. (iii) Residential investment including the new housing that people buy to live in and that landlords buy to rent out (Mankiw, 1992); (Junankar, 1972). This thesis only concerns the third type of investment. Economists agree that the main factor affecting investment in general is the interest rate in the economy (Mankiw, 1992). Additionally, there are a number of elements that affect investment decisions, such as political and societal stability, the economic atmosphere and the recovery period for the initial outlay (The Housing Bank for Trade and Finance, 2007); (Hammami, 2006). Investors do not take decisions before they are convinced that the area they want to invest in is within a suitable environment for growth (Ghertman, 1988). In addition, they need to know how long it will take before they can recover their capital. Naturally, a shorter recovery period will encourage them to invest, because they can reinvest their revenues to gain as much further profits as they can. Also uncomplicated investment procedures such as customs treatments and tax tariffs help. It can be suggested that policy makers need to consider a stable macroeconomic environment for investment and the medium and long-term strategies for a stable climate required to attract investment rather than any concession package for investment (Fahy, et al. 1998; Kikeri. et al., 2006). Government has to play an important role in this area where providing a suitable policy environment for private sector development is one of its roles (Gounder, 2001).

#### **1.4.4. The Nature of Investing in Housing**

Investment in housing is different from other kinds of investment, because of rapid changes that have happened in housing markets (Bramley, 1994).

A number of fundamental factors can influence price movements in housing markets. On the demand side, demographics, income growth, employment



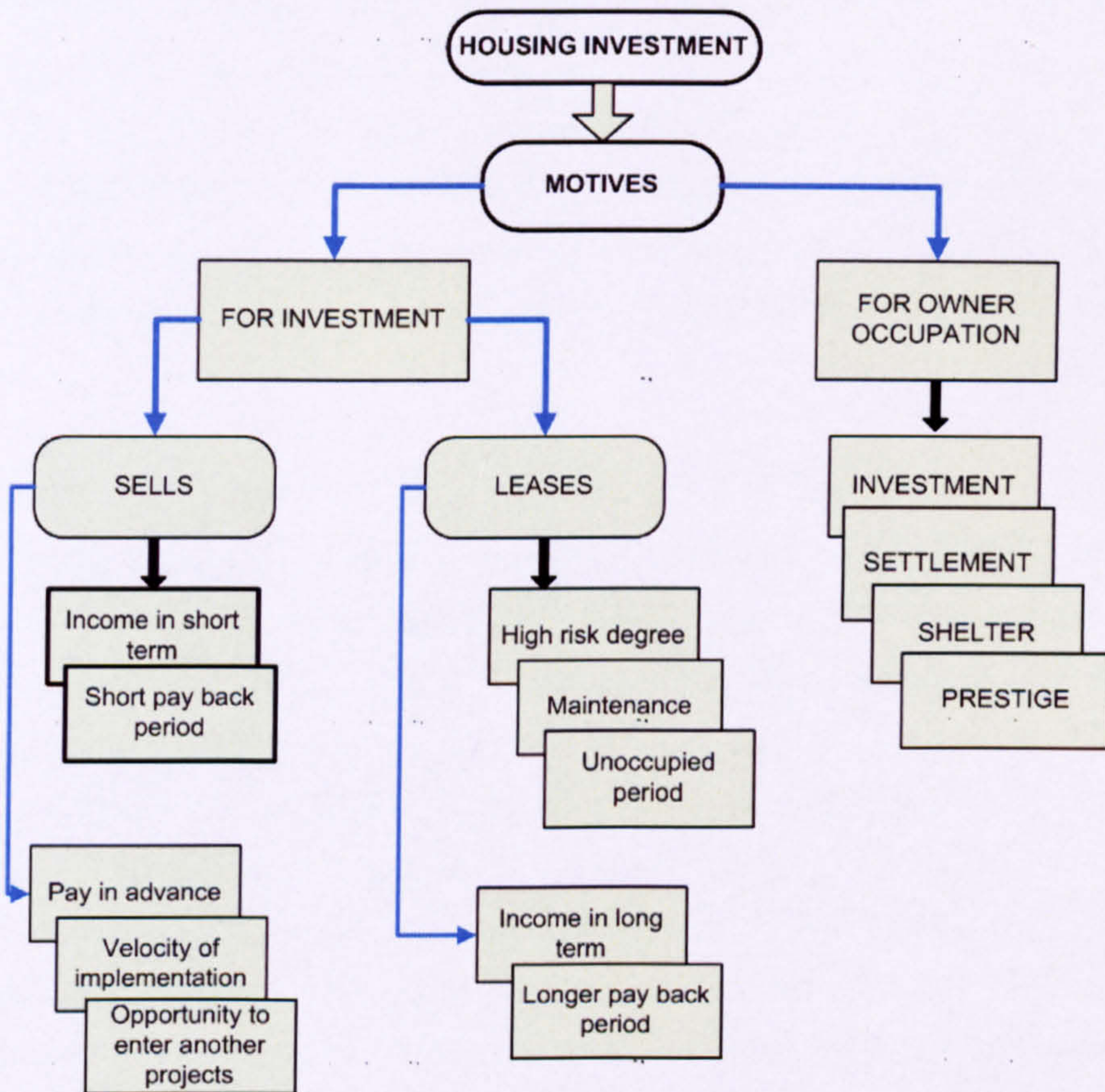
growth, changes in financing mechanisms or interest rates, as well as changes in locational characteristics like accessibility, schools or crime, to name a few, have been shown to have effects. On the supply side, attention has been paid to construction costs, the age of the housing stock, and the industrial organization of the housing market. The elasticity of supply has been shown to be a key factor in the cyclical behaviour of home prices (Case and Shiller, 2003). Despite housing demand being highly sensitive to income, roughly every 1% increase in income leads to a similar 1% rise in housing demand (Ball, 1996), it can take a long time to build one unit and there is a high cost for investors. In proportional terms the profit is still high, particularly if investors then sell whatever property they build.

This investment in housing can be divided into two kinds as can be seen in figure (1.1). The first type of investment is by owner-occupiers whose motives for purchase include shelter and prestige as well as treating the house or flat as an investment or store of wealth. This type of investment is beyond the scope of this study.

The second type of investment is concerned with 'pure' investment, where there is no intention of long-term occupation by the investor. Here the intention is either long-term investment income or potential capital gains, where the investor leases the properties to occupiers, or else by short-term gain where the investor sells on the completed housing to subsequent owner-occupiers. The former has a number of potential problems that are likely to discourage international investors (Globerman and Shapiro, 2002). These include the length of the capital recovery period (Brouwer and Hendrix 1998), fluctuations in the real estate market (Hoag, 1980); (Clayton, 1996); (Peek and Rosengren, 2000), long-term maintenance liabilities (Cooke, 2003), and the potential for voids (Notting Hill Housing Trust, 2006); (Smith and Wakeman, 1984).

The option to develop and sell therefore seems to be the most likely vehicle for international investment given the advantages of the short capital recovery period (Lohmann and Baksh, 1994).





**Figure 1.1: Types of Investment in housing**

The potential for buyers to pay in advance is possible, as is the situation in Libya where people pay at least 25% of the price of the dwelling before the first shovel heats the earth. Moreover, there is the opportunity to enter into additional projects in addition to the housing scheme.

#### 1.4.5. Mutual Advantages

There are mutual advantages to be gained by both parties in international investment. Because, while the investors have the chance to maximise their profits and extend into new markets (John, 1998); (Deardorff, 2003), the hosts have the chance to take advantage of foreign investors in a number of ways (Spar, 2006); (Moran, 2005). For instance, foreign investment helps to overcome many local economic problems, since an inflow of capital will push an



economy forward (Choe, Roehl, and Kumar, 2003). Moreover, FDI multiply job chances (Potter and Gallardo 2007), and lead to the development of other industries relevant to the housing sector (Godwin, 2006); (Goodson, 2006); (Guan, Feng and Zeng, 2001). Moreover, investment in housing leads income to increase and growth levels to rise within the general economy of country itself (Godwin, 2006); (Guan, Feng and Zeng, 2001); (Pugh and Lewin, 1991); (Duca, 2006)

## **1.5. DEFINITION OF RESEARCH QUESTION**

The housing problem for Libya began to escalate in the early 1980s, when it became clear that the state-managed housing sector could not keep pace with strong population growth, limited mortgage financing and rapid rural–urban migration. According to The Centre for Economic Science researches, (2002), the numbers of Libyan families were anticipated as 868,781 in 2001, but the number of housing units in that same year was only 703,446 thereby presenting a shortfall of 165,335 units. Studies such as Shamiah and Kaebah, (1996); Secretary of the General Planning Council SGPC, (2002) have clarified that the yearly shortage is 40,000 units, and the total shortage in 2002 was predicted to be about 300,000 units.

This problem can be summarised on two dimensions. The first one is that the socialist government cannot meet the need by itself, nor has the necessary environment been established to give the private sector sufficient trust to be able to commence large-scale housing investment projects. Therefore, this situation creates problems on the supply side. The second is that the demand side is continually rising because of the trend towards high population growth. Libyan government policy dictates that housing provision needs to keep pace with the population increase. Given this, the overall problem can be defined as a huge and rapidly increasing shortage in housing in Libya due to the demand continuing into the foreseeable future to be far greater than the national supply.

## **1.6. AIM OF THE STUDY**

This research aims to investigate how to attract international investment into Libya's housing sector. To achieve the study aims, the following objectives are developed:

## **1.7. RESEARCH OBJECTIVES**

The main objectives of this research are to:

- Investigate to what extent Libya needs new housing;
- Understand the reasons that have caused a shortage in housing;
- Evaluate Libya's attempts to solve the housing shortage problem;
- Determine what Libya has done to date to attract international investment in housing;
- Explore the potential benefits for both Libya and international investors;
- Define the essential conditions for attracting future international investment to alleviate the housing problem.

## **1.8. EMERGENT QUESTIONS**

There are some fundamental questions that emerge from this research. The answers to which will develop the structure of the analytical approach:

Q1 - Is there a real shortage of housing in Libya?

Q2 - What are the reasons that have caused the shortage in housing in Libya?

Q3 - Can Libya solve the problem of the housing shortage without any external help?

Q4 - Has Libya legislated suitably and sufficiently to attract international investment?

Q5 - Can Libya provide a suitable environment to attract international investment in housing?

Q6 - What are the critical success factors (CSF) in trying to attracting international investment in housing in Libya?

Q7 – Can the CSF's that attract international investment be created in Libya?



Q8 – Why would foreign investors invest in Libya?

Q9 - What are the benefits for both Libya and foreign investors?

Q10- When might foreign investors decide to invest in Libya?

## **1.9. Introductory Research Methodology and Methods**

This research comprises two parts, theoretical and practical, as follows:

A) Theoretical part; this part deals with:

- The concept of Foreign Direct Investment;
- Different theories of Foreign Direct Investment;
- Investment in housing;
- The CSF's in investment decisions;
- The importance and role of Foreign Direct Investment in helping small countries to solve their economic problems.

B) Practical part: This part attempts to study the housing problem in Libya. and the possibility of attracting international investors to participate. It will comprise:

- The determination of to what extent Libya has a real housing shortage;
- The determination of to what extent Libya needs co-operation from foreign investors;
- Establishing what Libya previously did to attract or deter foreign investment;
- Establishing whether Libya has done enough to attract foreign investment;
- Establishing what Libya needs to do to attract future foreign investment.

### **1.9.1 Research Methodology**

Different methodologies and methods have been explored in the literature to achieve different objectives. In this research, many books have been reviewed to help to plan the methodology, (Smith (2003); Sarantakos (2005); (Easter-Smith et al (1994); Harrigan (1983 a); (1983 b); Denscombe (2003); Sommer and Sommer (1980); Yin (2003) and Hussey and Hussey (1997)).

There are a number of different types of research methodology, some of which lend themselves to particular paradigms. Therefore, the type of methodology should reflect the assumption of the research paradigm. There are two main research paradigms or philosophies, which can be labelled positivist and phenomenological. Some authors use other terms, the most common of which are quantitative and qualitative, and others prefer to use the term interpretive rather than phenomenological (Hussey and Hussey, 1997).

In order to achieve this study's objectives, an exploratory methodology was used. The collection of data was by qualitative and quantitative methods which are important to illustrate housing needs over the coming years, and Libya's potential to build houses itself. A case study approach is used to illustrate the reasons behind the housing shortage, as is the use of semi-structured interviews, and this approach will be continued to evaluate Libyan attempts to solve the housing shortfall, using official documents, reports, legislation, and other sources. The same methodology will be applied in comparing the recommendations in the international economic literature regarding attracting foreign direct investment, and what Libya has actually done. With respect to analysing a questionnaire prepared for foreign investors, both quantitative and qualitative methods were adopted. From this mixed overall approach, the expected benefits for Libya and foreign investors will emerge. The flowchart figure (1.2), briefly illustrates the research framework in this study.

Full details will be provided in chapter 4.

### **1.9.2. Data Collection Methods**

There are two groups involved in this study, one being within Libya as the host country for foreign investment, and the other one being selected investors.

Selection of investors will be according to two criteria:

- Investors who have worked in Libya, and they are familiar with the Libyan economy and investment chances;
- Investors seeking new investment opportunities.

This approach will be justified in chapter 4.

### **1.9.2.1 Data from Libya as the Host Country**

This will consist of relevant information from the Libyan government, such as laws and decisions related to the study subject over the last three decades. Additionally, there will be data from semi-structured interviews, designed especially for three groups, public officers in Libya, decisions makers such as the General Planning Council (GPC), Local Planning Councils in Governorates (LPCG), and executive officers, such as the General Inspector for Housing and the People's Committees for Housing and Utilities in the Governorates (PCHUG) and heads of loan departments in commercial banks.

The semi-structured interview technique will be justified in chapter 4. Data will also come from a comparison between effective statutes and applied procedures regarding investment and finance, to achieve results that demonstrate the problem and its solution.

### **1.9.2.2 Data from Investors**

Data from investors will be twofold. Firstly, there is information from foreign investors already operating in Libya, and secondly there is data from foreign investors outside of Libya. These investors, approached via a questionnaire, to find out what they would do if they were given the chance to invest in Libya's housing sector. The questionnaires were handed to foreign investors in Libya, and the regular post and email is used to send the questionnaire to foreign companies outside of Libya. Those companies currently in Libya are from Egypt, Germany, Turkey, and Korea. Those outside of Libya will come from an opportunistic sample. The samples methods will be justified in chapter 4.



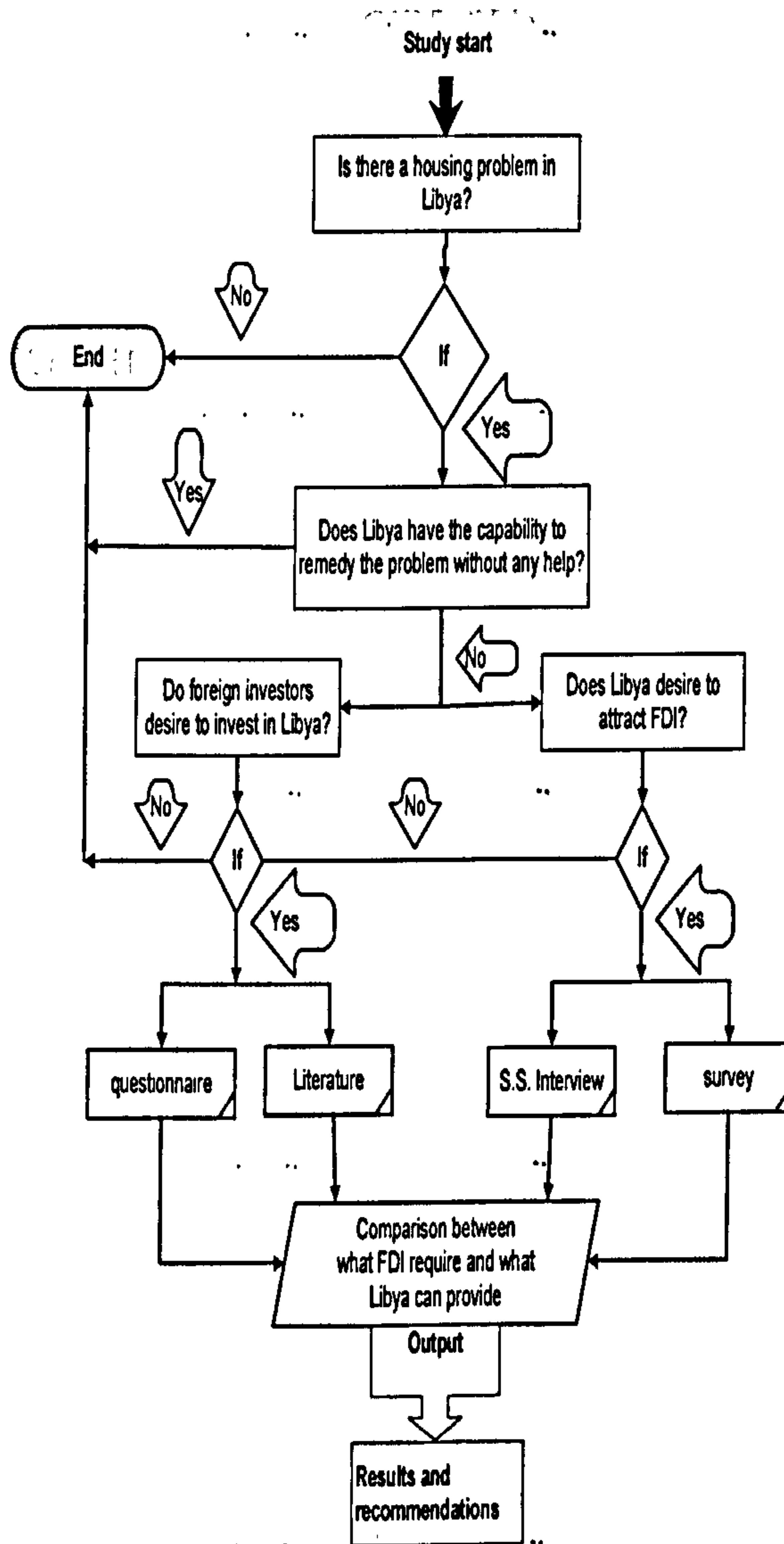


Figure 1.2: Development of Study Framework



## **1.10. THESIS STRUCTURE**

This thesis will be presented in six chapters. The first chapter introduces the study, represents details of the nature of the research problem, the rationale for the study, and then offers a short description of the research methodology.

The second chapter reviews the literature relevant to the foreign direct investment which will deal with FDI definitions and components, and discuss FDI models and theories.

The third chapter will focus on housing and present housing concepts, problems, and housing policies.

The fourth chapter discusses the detailed research methodology used in the study, identifies the philosophy that has been adopted, and the methods of data collection will be clarified. Then the techniques which are used to collect data are presented.

The fifth chapter of the thesis will present the discussion and analysis. This chapter comprises two parts; the first part will deal with the data that is relevant to the housing shortage; and the Libyan authorities' attempts to solve the problem and presents the reasons for failure of these initiatives. The second part will discuss the data relevant to how to attract foreign direct investment, where, data collection from both Libyan authorities and foreign companies will be analysed.

The sixth chapter will present the conclusion for the thesis overall and recommendations which are obtained as a consequence of the data analysis according to a framework which has been designed for research purposes.

## **1.11. SUMMARY**

Finally, this chapter reflects the broad lines used in this thesis, where the division between the chapters lies and the contents of each chapter. The next chapter will deal with the literature of economics with respect to foreign direct

investment and discuss the concept of housing, problems, and housing policy in general.

## **CHAPTER TWO**

### **FOREIGN DIRECT INVESTMENT**

## 2.1. INTRODUCTION

Foreign Direct Investment (FDI) is one of most salient features of, and the most powerful sources for, the social, economic, and political transition in developing countries (Sun, 2002; UN, 2005; Adam, 2000) FDI is both a consequence of, and a reason for, social and economic transformation.

Developing countries that have attempted to break the choke of their economies are in heavy need of capital resources. The necessity of foreign capital has been a function of the economic situation in which these countries, particularly the poor ones, started the transition: with generally inefficient industries, agriculture and service sectors that had to be modernised in order to become internationally competitive. Economic modernisation, however, has necessitated enormous amounts of capital, which has been mostly absent in these economies.

*“FDI has both benevolent and dangerous impacts on the development of the host countries. Foreign investments, on the one hand, bring about capital, technology, know-how and management techniques. They integrate the operation of local firms into the networks of foreign investors, helping to place local production on international markets and integrating the national economies into worldwide production and distribution systems. FDI can considerably promote economic growth and increase the export activity of the host economy. On the other hand, foreign investments can deliver rather controversial effects as well. Foreign firms can out-compete local producers, reduce local production capacities, cut personnel, close down research and development units, break up traditional subcontractor relationships and substitute them with imported goods, and repatriate profits thus deteriorating the balance of payments position of the host economy. Foreign companies, moreover, can ensnare the state of the host country, utilising the limited autonomy and capacity of post-communist authorities. An overwhelming level of foreign*



*ownership can distort the economic and social structure and, by weakening local resources, prevent the host social and economic actors from protecting themselves.” (Adam, 2000:73)*

## **2.2. THE DEFINITION OF FDI**

The creation of a clear and simple definition for foreign direct investment is not an easy task. Many theorists' (MacManus, 1972; Ragazzi, 1973; Meyer, 1988; Barrell et al, 1997; Stephan, 1998; OECD, 1999; Ngowi, 2001; Bitzenis, 2002; Borrmann, 2003; UN, 2003; UNCTAD, 2004) studied the concept of investing abroad and in particular foreign direct investment. These definitions are not simple definitions in a few lines since they involve much more than simple money transactions that aim to achieve a profit.

The definitions of FDI were taken from many sources, for example:

“Foreign direct investment is a rather inappropriate name for the process by which productive activities in different countries come under the control of a single firm. The essence of this phenomenon is not foreign investment, which is an international transfer of capital, but the international extension of managerial control over certain activities”. (MacManus, 1972: 66)

Some economists tended to the definition of foreign direct investment, as follows:

“A direct foreign investment is the amount invested by residents of a country in a foreign enterprise over which they have effective control”. (Ragazzi, 1973: 471)

Others say:

“DFI is defined as investment in equity to influence management operations in the partner company”. (Meyer, 1998:125)

While the OECD defined FDI as;

“a category of international investment made by a resident in one economy (direct investor) with the objective of establishing a lasting interest in an

enterprise resident in an economy other than that of the investor (direct investment enterprise". (OECD, 1999, Appendix IV: 88)

Most countries, in particular the developing countries, face a dearth of resources, and this can become a problem. Therefore, national governments consider FDI as one of the most important channel for them to obtain resources for development. Most countries have some natural or raw materials but they may not have the finances and technology to use the resources in projects to lead the development process (UN, 2003 a).

Thus to reach a comprehensive definition of foreign direct investment requires the adoption of guidelines.

The definition guidelines of FDI are provided by two international organisations, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), which illuminate many embodiments of FDI. Guidelines for the definition of FDI aspire to provide concepts for more obvious discrimination between portfolio investment and direct investment. Generally two categories of criteria are used for this distinction: (i) The time extent of the investment; (ii) The investor's motivations.

*"If investment is classified as a direct investment, the investors are supposed to have a long-term interest and exert a significant degree of influence on the management of the affiliate. On the contrary, if the time horizon is short and investors mainly have a financial interest; investment is classified as portfolio investment" (Stephan, 1998: 2).*

*"...FDI is defined in the IMF Balance of Payments Manual [5th edition] investment that involves a long-term relationship reflecting a lasting interest of resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor. The direct investor's purpose is to exert a significant degree of influence on the management of the enterprise resident in the other economy"(1993)"(Bitzenis, 2002: 90)*



According to releases by the United Nations Conference on Trade and Development (UNCTAD, 2004), FDI is defined as investment involving management control of a resident entity in one economy by an enterprise resident in another economy. FDI involves a long-term relationship reflecting an investor's lasting interest in a foreign entity.

FDI definitions are seen to differ greatly across countries (Ngowi 2001: 1). "There are many different operational definitions of FDI, but all aim to encompass the desire of a home country firm to obtain and manage an asset in a host country". (Barrell et al, 1997: 64)

In the definitions of the IMF and the OECD, both emphasize a "lasting interest" and a significant degree of influence of the investor over the company. This "lasting interest" implies a long-term relationship between the direct investor and the enterprise and distinguishes FDI from portfolio investment. Moreover, a "lasting interest" means that there should be a noticeable influence on management of the direct investment enterprise. (Borrmann, 2003: 10-11)

Considering all of the fore mentioned definitions the definition of FDI adopted in this thesis is that of the World Investment Report definition:

*"foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities". (UNCTAD 2004: 345).*

It should also be mentioned that FDI in controlling the amount of investment and the period could be come a barrier and host countries

would become afraid of the dependency of their economies, on FDI from another economy; this will be covered in detail in chapter 5.

Having proposed the FDI definition for this thesis there are some concepts that should be propounded.

Inflows of FDI in the reporting economy comprise capital provided (either directly or through other related enterprises) by the foreign direct investor to an enterprise resident in the economy (called the FDI enterprise).

Outflows of FDI in the reporting economy comprise capital provided (either directly or through other related enterprises) by a company resident in the economy (direct investment enterprise) to an investor resident in another country (FDI investor).

### **2.3. COMPONENTS OF FDI**

The components of FDI could comprise any or all of the following: equity capital; reinvested earnings; and other capital (mainly intra-company loans) (Brewer, 1992; Loree and Guisinger, 1995). Some countries do not always collect data for each of these components. In particular in developing countries. Therefore, reported data on FDI are not fully comparable across countries. Data on reinvested earnings; or when data collection depends on a company survey; are often unreported in many countries.

### **2.4. THE THRESHOLD OF EQUITY OWNERSHIP**

The literature identified that countries have very different specified threshold values for foreign equity ownership that they take as evidence of a direct investment relationship. The IMF and OECD assume that a minimum share of 10 % of the nominal capital when owned by a foreign investor, will ensure this noticeable influence; absolute control is not required. Many countries have their own standards "for example in the US, Canada, and Australia the minimum is 10%, in France and Germany 20% (or 25% according to Brewer (1993)) and in New Zealand 25%. (Bitzenis, 2002: 90).



This is predicated as the level of participation, which gives the direct investor the right to have an effective say in the management of the enterprise.

Some countries however, do not specify a threshold point, but rely entirely on other evidence, including companies' own assessments as to whether the investing company has an effective voice in the foreign firm in which it has an equity stake.

The quantitative impact of the differences in the threshold value used is relatively small, since the largest proportion of FDI, is directed to majority-owned foreign affiliates. (UNCTAD, 2004).

There are also many alternatives routes other than having an equity stake in an enterprise; by which the foreign investors may acquire an effective voice. These include: subcontracting; management contracts; turnkey arrangements; franchising; leasing; licensing; and production sharing. A franchise ( a firm to which business is subcontracted) or a company which sells most of its production to a foreign firm through means other than an equity stake are not usually considered in the FDI statistics. Some countries have begun to contemplate doing so. For example, the OECD (Shevtsova, 2006) treats financial leases between direct investors and their branches, subsidiaries or associates as if it were conventional loans; such relationships would therefore be included in its revised definition of FDI.

## **2.5. DIFFERENT MODES OF FDI**

Foreign direct investment can take a variety of investment modes. The forms include: Greenfield investment; a merger or an acquisition; a joint venture. These three are the most prevalent and are hence discussed in detail below. Other forms are identified for reference purposes.

### **2.5.1. Greenfield Investment**

This means new equity capital investment flows from abroad for the first time. Usually this type of investment is more desirable than other types of FDI. It creates jobs in the host country, and provides those countries with financial

resources which they lack. *“Greenfield is new investment made by setting up a new foreign affiliate”* (Tomsik, et al. 2001:3).

### **2.5.2. Mergers and Acquisitions (M&As)**

This is a less desirable mode of FDI.

*“Investment through cross-border M&As (M&As is by definition of UNCTAD a change of assets from domestic to foreign subjects and, at least initially, they do not add to the productive capacity of host countries) is made either through foreign firms merging with domestic firms (the results of which are new entities) or foreign firms taking over existing domestic firms (which become new foreign affiliates). Cross-border M&As can involve private firms only, or can take the specific forms of privatisation with the participation of foreign buyers”.*  
(Tomsik, et al. 2001:3)

Where a domestic firm is failing, hence risking mass unemployment, acquisition by a foreign firm may be deemed desirable, but from a development perspective, this form of FDI is likely to make a limited contribution in the long run. Mergers by parent companies of leading global Trans-National Corporations (TNCs) are outside the control of the host country where affiliates of both TNCs were operating before the merger and may lead to suppression of competition in the host country.

However, the question arises whether M&As, as opposed to Greenfield FDI, can play the same role in contributing to the development process. As already mentioned, cross-border M&As is a change of asset ownership from domestic to foreign subjects and, at least initially, they do not add to the productive capacity of the host countries. This is true, especially, at the time of entry and in the short term; when M&As are compared to Greenfield investment; may bring smaller benefits or larger negative impacts for the host country development. The benefits and negative impacts of M&As, Greenfield FDI, and the other forms are discussed later.

### **2.5.3. Joint Ventures**

Joint ventures (J. V.) are defined as the formation of a new company through the participation of two or more companies in an enterprise where each party contributes assets, owns the equity (property of the J.V. such as equipment, buildings, capital, etc) to the extent agreed upon, and shares the risks and benefits of new projects. (Makino, and Beamish, 1998; Shenkar and Zeira, 1992; Meyer, 2000). International joint ventures are extremely useful for all partners involved, because it provides the potential for both income and growth. Developing countries have offered joint ventures preferential treatment because they provide the desired combination of technology and foreign capital; they also ensure the participation of the local administration, affecting the effectiveness of technology transfer.

Joint ventures advantages for international investing companies could be listed as: giving a chance to penetrate a new market; giving a chance to sell technology, processes, equipment, consulting, services, etc; giving a chance to invest capital and get return streams for many years; taking advantage of the expertise in the local market of the host country; and a chance for growth. (MOK, et al. 2002) At the same time, the advantages of joint ventures for the host country can be listed as: obtaining a chance to gain up-to-date technology and managerial know-how; obtaining a chance to create new industries, skills, training, etc; obtaining a chance for increased employment; obtaining a chance to get important returns streams for many years; obtaining a chance for growth. (Borensztein, et al., 1998; Blomström, and Kokko, 1997)

### **2.5.4. Reinvested earning**

While not constituting a fresh capital inflow from abroad, this form of investment adds to the host country's capital stock and assets and productive capacity (and possibly technology). (UN, 2003 b)



### **2.5.5. Intra-Company Loans**

Capital flows from the parent company (abroad) to the subsidiary (in the investment locality) but must eventually be repaid with interest constituting larger capital outflows. This type of investment helps the foreign investor in financing the local business and thereby enabling continued contribution to the local national economy.

### **2.5.6. Non-equity forms of FDI**

Subcontracting, licensing, or franchising arrangements, which do not necessarily involve capital flows from abroad, but can, contribute to the development of the host country's business sector.

## **2.6. THE POSITIVE AND NEGATIVE SIDES OF FDI**

There is a peculiar duality in the literature regarding the positive and negative effects of FDI on the host economy. To highlight both positive and negative effects economic models are presented, which reflect these effects.

### **2.6.1. The Benign Model of FDI (Moran, 1998)**

The positive approach or, using Moran's term, "the benign model of FDI and development ", considers foreign investment as an appropriate tool for cutting the vicious circles of poverty-laden economic equilibrium, in which: *"... low levels of productivity lead to low wages, which lead to low levels of saving which lead to low levels of investment, which perpetuate low levels of productivity"* (Moran, 1998: 19-20). Table 2.1 illustrates the studies that identified the positive effects of FDI.

### **2.6.2. The malign model of FDI**

Foreign investment also has negative effects as well, which "have been emphasised by theories of dependency as were elaborated extensively in analyses of Latin American development paths" (Adam, 2000: 80). The Latin American experience of FDI, in contrast to that of south-east Asia, is considered as a basically negative one. Whereas from the Latin American point of view foreign investments are described as being enclave-type economic islands,

failing to contribute in the economics in the long-term, and pushing social developments onto their host countries. In the eyes of many observers, most Latin American FDI projects, in line with Moran's malign model have contributed to:

**Table 2.1: Studies That Identified the Positive Effects of FDI**

<b>Author</b>	<b>Theme</b>
<b>Lipsey, R. E. and Sjöholm F. in Moran et al (2005)</b>	<b>The Impact of Inward FDI on Host Countries: Why Such Different Answers?</b>
<b>Moran, T. H. (2005) in Moran et al (2005)</b>	<b>How does FDI Affect host countries development ? Using industry case studies to make reliable generalization.</b>
<b>Görg, H. and Strobl, E. in Moran et al (2005)</b>	<b>Foreign Direct Investment And Local Economic Development: Beyond Productivity Spillovers,</b>
<b>Adam, Z. (2000)</b>	<b>FDI: Good or Bad?</b>
<b>Mold, A. (2004)</b>	<b>FDI and poverty reduction: A Critical Reappraisal of the Arguments</b>
<b>Asian development outlook (2004)</b>	<b>Foreign direct investment in developing Asia.</b>

Source: prepared by the author.

*“Lower domestic savings and investment by extracting rents and siphoning off capital through preferred to local capital markets and local supplies of foreign exchange. Instead of closing the gap between investment and foreign exchange they might drive domestic producers out of business and substitute imported inputs” Moran (1998) as cited by Adam (2000: 81-82).*

Additionally, some policy makers fear the potential effect on local production because of the inability to compete with high quality goods. This could be the cause of some as the negative effects such as inflation and conversion of the consumer-behaviour to undesirable types. Table 2.2 illustrates the studies that identified the negative effects of FDI.

**Table 2.2: Studies That Identified the Negative Effect of FDI**

<b>Author</b>	<b>Source</b>
<b>Moran, T. H. (1999)</b>	A Reassessment Of The Evidence And Policy Implications.
<b>Moran, T. H. (2005) in Moran et al (2005)</b>	How does FDI Affect host countries development? Using industry case studies to make reliable generalization.
<b>Adam, Z. (2000)</b>	FDI: Good or Bad?
<b>Mold, A. (2004)</b>	FDI and poverty reduction: A Critical Reappraisal of the Arguments
<b>Asian development outlook (2004)</b>	Foreign direct investment in developing Asia.

Source: prepared by the author.

## **2.7. THEORIES OF FOREIGN DIRECT INVESTMENT**

These theories try to explain the reasons for the success of some countries in obtaining FDI rather than other countries. Some of these theories discuss from the investors viewpoint (why the investors choose to invest abroad?), whereas others attempt to explain the host countries viewpoint (propensity of country and its ability to attract FDI).

Theories of FDI may be classified under the following headings which were suggested by Agarwal (1980) and Lizondo (1991):

- (i) Theories assuming perfect markets;
- (ii) Theories assuming imperfect markets;
- (iii) Other theories; and
- (iv) Theories based on other factors.

As shown in figure 2.1, these theories may result in some overlap. "... it will be observed that some variables and factors that influence FDI may appear under



more than one heading and be used by more than one theory". (Moosa, 2002: 23). However, this classification may be useful for expository purposes. Additionally, there are other criteria which can classify FDI. FDI can be classified according to factors that affect it: as macro factors; micro factors; or strategic factors. All factors will be examined from the various theories or hypotheses that will be presented in the following section. It has to be noted that the common denominator in all of these theories is that the most important reason for undertaking any investment is profit making, and FDI is no exception.

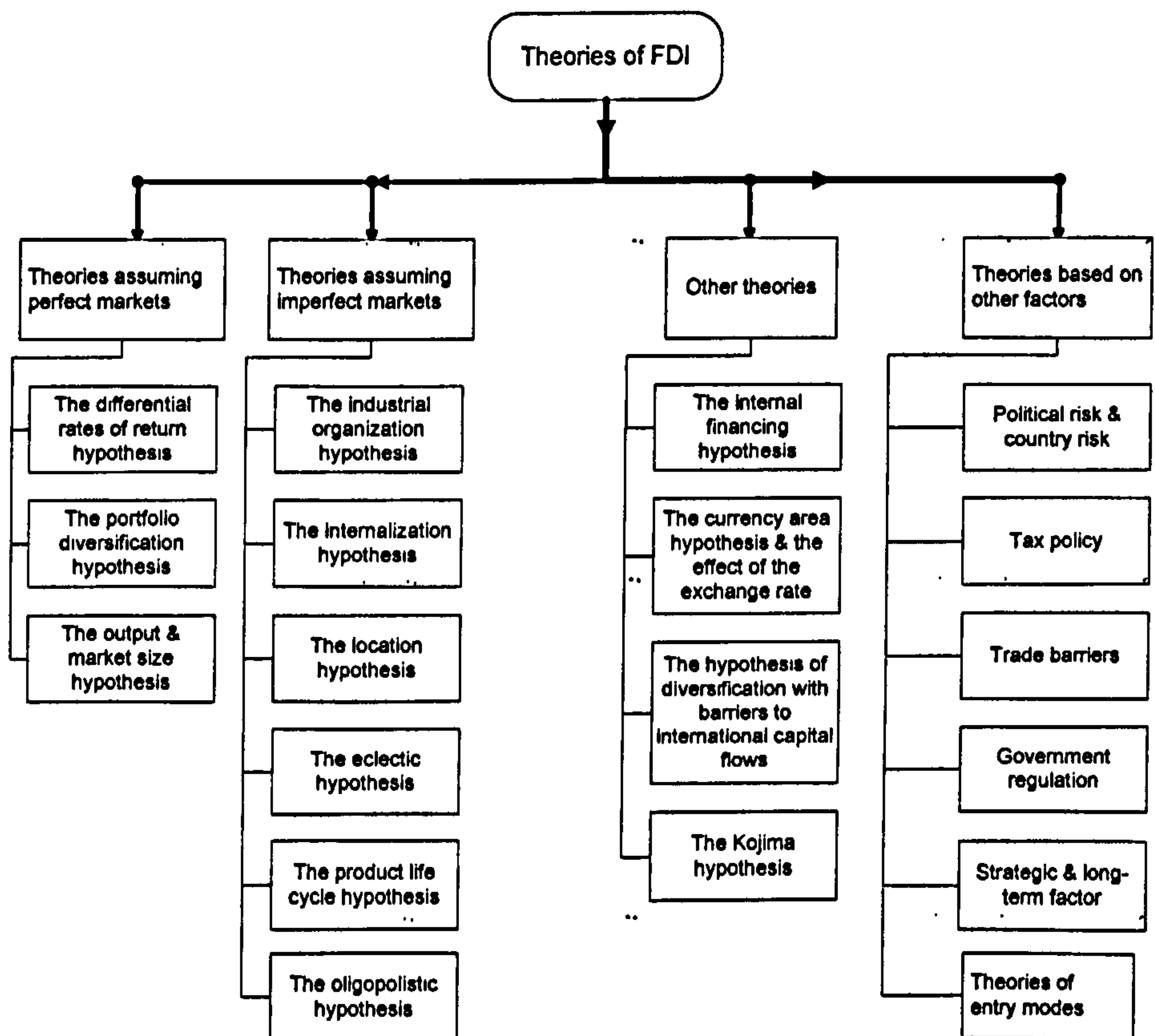


Figure 2.1: Theories of FDI

### 2.7.1. Theories Assuming Perfect Markets

The theories assuming perfect markets comprise three hypotheses: the differential rates of return hypothesis; the diversification hypothesis; and the market size hypothesis.

#### 2.7.1.1. The Differential Rates of Return Hypothesis

The differential rate of return hypothesis presumes that capital pursues the highest rates of return (Desai, Foley, and Hines, 2006; Eichengreen, 2001).

Where capital flows from countries with low rates of return to countries with higher rates of return, then subsequent moves in the process leads eventually to the equality of ex-ante real rates of return. According to the rationale for this hypothesis the firms considering FDI behave so when the marginal return equates to the marginal cost of capital or greater.

The hypothesis assumes risk neutrality, where it considers the rate of return as the only variable upon which the investment decision depends. The risk neutrality assumption implies that the investors consider investment domestically and foreign direct investments to be perfect substitutes, and in general that any foreign direct investment in any country, including the home country are all perfect substitutes.

When this hypothesis was examined, most of the empirical studies aimed at testing it failed to provide supporting evidence, as documented by Agarwal (1980). "... *but while Bandera and White (1968) rejected the differential rates of return hypothesis, they stressed the adequacy of return as a precondition for the movement of capital*" (Mossa, 2002:24). Yang (1999) attempted to adjust the rates of return on physical capital to allow for differences in human capital as an explanation for why FDI may go to low return areas. Ultimately, he concludes that human capital plays an important role in equalizing rates of return on capital in poor and rich regions.

### 2.7.1.2. The Portfolio Diversification Hypothesis

The theoretical foundations of the portfolio diversification hypothesis can be traced back to the theory of portfolio selection of Tobin (1958) and Markowitz (1959) (Mossa, 2002:24). To test this hypothesis it is necessary to examine the relationship between the share of FDI going to a group of countries, and the two variables that effect the decision: the rate of return, and risk. It can be said that this hypothesis merges the two variables together, especially when the differential rate of return alone seems insufficient to justify a decision for investment. A differential rate of return will not induce capital flows in one direction until the differential disappears via arbitrage, whereas this hypothesis accounts for FDI flows both in and out of the country. The results of empirical studies of this hypothesis, only weakly support the hypothesis, as documented by Agarwal (1980). Although, these criticisms can be traced back to the ways in which such studies have been done. The diversification hypothesis is superior to the differential rates of return hypothesis, for several reasons as cited by Mossa (2002). First, the diversification hypothesis offers the main advantage, that it can be generalized. Secondly, it offers a plausible explanation for cross-investment between countries and industries. Thirdly, it considers risk, which constitutes a very important element in all FDI decisions. Fourthly, in the case of developing countries, financial markets are not only imperfect, but also rudimentary, which makes portfolio investment less attractive for FDI since the theory assumes perfect markets. Finally, the degree of control, which is considered as an essential characteristic that, distinguishes FDI from portfolio investment. Multi-National Companies (MNCs) prefer FDI, because FDI gives them more control.

However, Libya is one of the developing countries, and their financial markets are imperfect and rudimentary. At the same time, the companies which have been offered for sale were originally governmental companies suffering from many problems, especially the surplus-employment and low profitability, which makes Foreign investors refuse to diversify the portfolio in Libya. Despite Libyan attempts to attract this type of investment, foreign investors still are hesitant.



### **2.7.1.3. The Market Size Hypothesis**

According to this hypothesis, the market size is measured by the sales of multinational companies (MNCs) in the country, or by its GDP (Mossa, 2002). It can be said, when the market size has grown to a level warranting the exploitation of economies of scale, the country becomes a potential target for FDI inflows.

Regardless of there being no obvious foundation for using a country's, Gross Domestic Product (GDP) as a proxy variable for market size, many of the studies used this GDP variable to determine the direction of the flow of foreign direct investment (Mossa, 2002). Experimental studies used this test because it supports the hypothesis that a higher level of sales and increases in the host country's income is positively correlated to increasing FDI. A number of studies which also dealt with the size of the market as a determinant of FDI supports a positive relationship between foreign direct investment on the one hand and one of the branches of foreign companies and / or GDP, on the other hand. In spite of a high correlation between FDI and GDP as cited by Mossa (2002), Agarwal (1980) warns of the hazards of interpreting the significance of this relationship.

Studying the gross domestic product of Libya in recent years illustrates that the contribution of non oil activities to GDP was high compared with the contribution of oil and natural gas (Central Bank of LIBYA, 2005). But this increase in the contribution of non-oil activities was not due to economic development, but was the result of inflation. However, the Libyan market can be described as in the phase of growth. The opportunities of the breadth of this market are confirmed, and this gives an opportunity for foreign investors to benefit from the exploitation of economies of scale. The Libyan Foreign Investment Board noted that Libya agreed to establish 117 projects at a cost of \$768,630,560 in the period 2000 – 2005. (Libyan Foreign Investment Board, 2006)

### **2.7.2. THEORIES ASSUMING IMPERFECT MARKETS**

Hymer (1976) was the first economist to indicate that the structure of the market and specific characteristics of investing firms could explain FDI (Mossa, 2002). A number of hypotheses fall under this category.

### **2.7.2.1. The Industrial Organization Hypothesis**

According to this hypothesis, branches of foreign companies face several disadvantages in competing with indigenous local companies. These constraints stem from inter alia, differences in: language; culture; legal systems; and other differences between countries (source details in table 2.2 previously). However, in spite of these shortcomings companies wish to achieve foreign direct investment, to benefit from the many advantages such as: large capital; management; high technology; good marketing; optimal use of raw materials; the economies of scale which provides funding and expertise for the establishment and operation of facilities; and the negotiation of political power. (source details in table 2.1 previously). This approach reflects the viewpoint of foreign companies that Graham and Krugman (1995) used in the interpretation of the growth of foreign direct investment in the United States. Nevertheless, they did not explain why the company did not use the advantages of production in the country of origin and then export abroad, which constitutes an alternative to foreign direct investment. While this hypothesis explains reasons that lead firms to invest abroad, it does not explain why firms choose a specific country. Nor does it explain why firms would select developing countries (such as Libya) when there are opportunities in developed/mature countries, (such as the US).

### **2.7.2.2. The Internalization Hypothesis**

According to this hypothesis, FDI arises from efforts by firms to replace market transactions with internal transactions. This idea is an extension of the original argument put forward by Coase (1937) that certain marketing costs can be saved by forming a firm. The internalization hypothesis explains why firms use FDI in preference to exporting and importing from foreign countries. It also explains why they may shy away from licensing. Firms replace some of the marketing functions with internal processes; because of the significant time lags and transaction costs associated with market purchases and sales, that is, with intra-firm transactions. Moreover, the internalization process eliminates uncertainty. For example, if there are problems associated with buying oil products on the market, a firm may decide to buy a foreign refinery (Moosa,



2002: 32). These problems arise from imperfections and failures of markets for intermediate goods, including: human capital; knowledge; marketing; and management expertise. The advantages of internalization are: avoidance of time lags; bargaining; and buyer uncertainty. Indeed, the main motive for internalization is the presence of externalities in the goods and factors markets. There are arguments that criticize this hypothesis the most important of which are: first, Rugman (1980) who argues that the hypothesis is so general that it has no empirical content, and Buckley (1988) who argues that the hypothesis can not be tested directly.

### **2.7.2.3. The Location Hypothesis**

The location hypothesis (Moosa, 2002) depends on the location of production adjacent to the factors of production, or of market productions' sale, or both. This immobility of production factors due to the impossibility of shipping or the high cost of mobility sometimes leads to many difficulties for different reasons. Local natural resources are always characterized by the high cost of shipping. In addition, low wages could be an attractive factor for FDI (Graham, 1997). However, the studies on low wages showed different results (Jensen, 2006). This difference is attributed to labour productivity. Labour in areas where wages are low may also be less productive. Low wages per se is a factor that attracts foreign direct investment that cannot be neglected. Location advantages not only take the form of low wages; they are also applicable to other factors of production, such as cheaply generated hydroelectric power, closeness to natural materials. The location can also lead to savings in the costs of shipping, and to avoiding delays in delivery of raw materials. The location hypothesis also emphasizes the importance of unavoidable government constraints, such as trade barriers.

The location hypothesis is the more suitable to the circumstances of Libya particularly in the housing industry, where the transfer of produced goods (houses) impossible. The many basic raw materials are local, also low wages, where wages 85% of employees less than 300 Libyan Dinars (General Board of Information, 2002), it is worth to note £1 = 2.367 LD (Central Bank of Libya,



2005), must also refer to the prices of energy sources low in Libya. Therefore, Libya is seeking to reduce government restrictions on investors in a bid to attract foreign investors.

#### **2.7.2.4. The Eclectic Theory**

The eclectic theory developed by Dunning (1977, 1979, 1988) as cited by Mossa (2002: 36) integrates the previous three hypotheses: (i) the industrial organization hypothesis; (ii) the internalization hypothesis; and (iii) the location hypothesis; without being too precise about how they interrelate. This theory attempts to find answers for the following questions. First, why local demand for a particular commodity is not met by local firms' production or by importing from firms in other countries? Secondly, when a firm wants to expand its scale of operations, why does it not do so via other channels? These channels comprise: (i) producing in home country and exporting to the foreign country; (ii) expanding into a new line of business locally; (iii) indulging in portfolio investment in foreign country; and, (iv) licensing its technology to foreign firms that carry out the production. According to this theory, three conditions must be satisfied if a firm is to engage in FDI. First, it must have a competitive advantage over other firms arising from ownership of some intangible assets. These are called ownership advantages which include: the right to a particular technology; monopoly power and size; access to raw materials; and access to cheap finance. Secondly, it must be more beneficial for the firm to use these advantages rather than to sell or lease them, and these are then called internalization advantages. Thirdly, it must be more profitable to use these advantages in combination with at least some factor inputs located abroad. These are the location advantages, which pertain to the question of whether expansion is best accomplished at home or abroad (Moosa, 2002:37). The theorists who believe in this theory (Dunning, 1980; Hill, et al. 1990; Itaki, 1991; Williams, 1997) think that all forms of FDI can be explained by reference to its conditions. It recognizes that advantages arising from ownership, internalization, and location may change over time, and accepts that if country-

specific characteristics are important determinants of FDI, it may be invalid to generalize from one country's experience to another.

According to this hypothesis, where Libya is unable to cover housing demand by local efforts, so Libya should offer a suitable environment to attract FDI, as it tried already.

#### **2.7.2.5. The Product Life Cycle Hypothesis**

Vernon (1966) developed this hypothesis to clarify the expansion of USA MNCs after the Second World War. According to this hypothesis, 'products go through a cycle of initiation, exponential growth, slowdown and decline – a sequence that corresponds to the process of introduction, spread, maturation and senescence' (Vernon, 1971). Postulates of this hypothesis (Caves, 1980) say that firms engage in FDI at a particular stage in the life cycle of the products that they initially produced as innovations. The stages are identified as: (i) This first stage starts when beginning to produce initial production, which takes place at home, close to the customers to satisfy their desires, and also because of the need for efficient co-ordination between R&D and production units. During this stage of the product life cycle, the demand for the new product is price inelastic, and so the innovating firm can charge a relatively high price. As time passes the product is improved, based on feedback from customers. Up to this point, firms' consider the demand has come from customers living in the home country. (ii) The second stage is characterized by the product maturity and then after that seeks to export the product to meet the request of high-income countries as demand emerges in these developed countries demand continues to grow and competition emerges, the innovative firm resorts to FDI in these countries to meet local demand. At this stage, the home country is a net exporter of the product, while foreign countries are net importers. (iii) The third stage described is as a complete standardization of the product and production process, which is no longer an exclusive possession of the innovating firm. At this stage, price competition from other producers forces the innovating firm to invest in developing countries, seeking cost advantages. The home country starts to import the product from both domestic and foreign firms based in foreign

countries. The home country becomes a net importer, while foreign countries are net exporters.

#### **2.7.2.6. The Oligopolistic Reaction Hypothesis**

Knickerbocker (1973) suggested that, when an oligopolistic environment dominates the market, the entry of any company, including for foreign direct investments, is faced by the leading companies in the industry who react to try to maintain their market share. In their assessment of the motives for Japanese outward FDI, Kreinin et al (1999) concluded that "securing market share is the most salient motivation". After all, it is usually firms belonging to monopolistic or oligopolistic industries at home that are better placed and have the necessary incentive to commit resources to R&D (Mossa, 2002: 41). Moreover, Knickerbocker (1973) suggests that oligopolistic reaction has a positive correlation with concentration and a negative correlation with diversity of production. Oligopolistic reaction therefore increases with the level of concentration, and decreases with the diversity of the product. On the basis of data on the manufacturing FDI of 187 US MNCs, he found that the oligopolistic firms try to counter any advantage that a first-moves firm may obtain from FDI by following it with their own FDI in order to maintain a competitive equilibrium. Increased industrial concentration has been found to cause increased oligopolistic reaction in the field of FDI and to be correlated positively with entry concentration, and that the latter was correlated negatively with product diversity.

The Libyan economy after 1977 was not oligopolistic, but each organisation was governmental (service and productivity). When Libya began to open to the rest of the world since the beginning of 1999, it has become a favourable opportunity for foreign investors to enter the market without fear of oligopolistic behaviour.

#### **2.7.3. OTHER THEORIES OF FOREIGN DIRECT INVESTMENT**

This category comprises five hypotheses:



### **2.7.3.1. The internal financing hypothesis**

The idea of this hypothesis (Anderson, 1983; Fee et al. 2006) is that internal financing refers to the utilization of profit generated by a subsidiary to finance the expansion of FDI by an MNC in the country where the subsidiary is located. This hypothesis is traced back to the 'gamblers earnings' hypothesis of Barlow and Wender (1955), which postulates that MNCs commit a modest amount of their resources to their initial direct investment, while subsequent expansions are financed by reinvesting profits obtained from operations in the host country. It therefore implies the existence of a positive relationship between internal cash flows and investment outlays, which is conceivable because the cost of internal financing is lower. Froot and Stien (1991) argue that, external financing is more expensive than internal financing due to informational imperfections in capital markets. This hypothesis seems to be more appropriate for explaining FDI in developing countries for (at least) two reasons (Froot et al, 1993; Desai et al 2004): (i) the presence of restrictions on the movement of funds; and (ii) the rudimentary state and inefficiency of host financial markets.

Libya as it was mentioned previously, is one of the developing countries, but it is characterised by its financial market which just started to work in 2006 (General Peoples' Committee No. 134 in 03/06/2006). Therefore, foreign investors can contribute to establish the Libyan financial market in the right way, and Libya will benefit from their long experience. In addition, as a solution to the finance problems in Libya, it did not impose conditions on foreign investors to finance their projects.

### **2.7.3.2. The Currency Area Hypothesis and the Effect of Exchange Rate**

This hypothesis has been put forward by Aliber (1970, 1971), and attempts to explain FDI in terms of the relative strength of various countries. Postulates of this hypothesis are that firms belonging to a country with a strong currency tend to invest abroad, while firms belonging to a country with a weak currency do not have such a tendency. It can be verified that generally countries with strong currencies tend to be sources of FDI, while countries with weak currencies tend to be host countries or recipients of FDI. This hypothesis is based on the capital

market relationship, foreign exchange risk, and the market's preference for holding assets denominated in a strong currency. Aliber (1971) argues that an MNC, which has a good reputation in a hard currency area is able to borrow at lower rates in a soft currency country than can local firms. Dunning (1973) as cited by Moosa (2002) suggests that the currency area hypothesis adds to the industrial organization hypothesis, because country risk affects the relationship between the investing firms and their competitors, though it does not supplant it. Caves (1988) argues that the effect of the exchange rate on FDI runs through two channels. First, changes in exchange rates lead to changes in the investor's costs and revenues. The net effect of this on FDI is ambiguous, depending on certain characteristics of the underlying business activity. The second channel is associated with expected short-term exchange rate movements. A depreciation that is expected to be reversed will encourage FDI inflows to obtain capital gains when the domestic currency appreciates. Generally, it can be said that various studies as cited by Moosa (2002) such as (Agarwal, 1980; Dunning, 1973; Sung and Lapan, 2000) have confirmed that the exchange rate changes affect the flow of foreign direct investment.

Libya started to benefit from these economic changes, therefore, it decreased its currency value against the US \$ from \$1 = 0.29771 LD in 1992 to \$1 = 1.30669 LD in 2004 (Central Bank of Libya, 2004), this decreasing of Libyan currency value is considered an attractive factor, also the relative stability of exchange rates is an attraction factor.

### **2.7.3.3. The Hypothesis of Diversification with Barriers to International Capital Flows (Moosa, 2002; Nishiotis, 2006)**

Many of the barriers, impeding the movement of foreign investment flows, led to the diversification of foreign investment to avoid these barriers. The benefits of international diversification at the investor level are well-documented (Agmon and Lessard, 1977). However, the mere presence of less than perfect correlation among company earnings and/or asset values in various countries is insufficient to establish that international diversification is relevant at the corporate level (Agmon and Lessard, 1977; Mishra et al, 2001). The hypothesis



states that two conditions must be satisfied: (i) there must exist greater barriers or costs to portfolio capital flows than to capital flows forming part of the direct investment package; (ii) investors must recognize that multinational firms provide diversification opportunities that are otherwise unavailable (Agmon & Lessard, 1977: 1049).

Libya has sought to give investors ample opportunities to enjoy the benefits of investment in Libya under the laws of Investment (Law No. 5 and 7, see Annex 3). At the same time provides them with opportunities to diversify investment.

#### **2.7.3.4. The Kojima Hypothesis**

The Japanese economist Kojima has provided this hypothesis; Kojima hypothesis (1973, 1975, 1985) suggesting that direct investment provides a means of transferring capital, technology, and managerial skills from the source country to the host country. This approach is described as being a 'macroeconomic approach' or a 'factor endowment approach', as opposed to the 'international business approach' to FDI. Kojima classifies FDI into two kinds. The first is trade-oriented: which generates an excess demand for imports and excess supply of exports at the original terms of trade. This kind of FDI leads to welfare improvements in both countries. Moreover, it would normally imply investment in industries in which the source country has a comparative disadvantage. This would promote trade and a beneficial industrial restructuring in both countries. The second kind is the anti-trade-oriented FDI, which has exactly the opposite effects to those of the first kind. Thus, anti-trade-oriented FDI has an adverse effect on trade, and it promotes unfavourable restructuring in both countries. It can be noted that the Kojima hypothesis is based on the complementarity's of trade and FDI, and it emphasizes the need for considering comparative costs.

Libya seek to benefit from the complementarity between international trade and FDI, where increasing trade leads to activate the economy in whole sectors, and this is one of most important Libyan policy orientations.



### 2.7.3.5. THEORIES OF ENTRY MODES

Theories of entry types have evolved over time. Beginning in the 1960s, FDI theories concentrated on the choice between exports and FDI. Many factors affect the choice between exports and FDI; these factors have been identified by Lall and Streeten (1977) as:

1. Production and transportation costs, as FDI enables them to exploit cost advantages;
2. Government policy in the host country with respect to trade barriers;
3. The marketing factor, as FDI enables firms to service the destination in a better way;
4. Oligopolistic reaction in the sense that moves towards foreign production by one-way oligopolistic firm induces others to follow;
5. Product cycle, which triggers FDI along the lines suggested by the product life cycle hypothesis.

International joint ventures have also emerged as an important entry mode. Conditions conducive to the establishment of joint ventures include:

- (i) The possession of complementary assets;
- (ii) Opportunities for collusion;
- (iii) Barriers to full integration.

The reasons that MNCs prefer joint ventures as a manner of entry mode are:

- (i) Many developing countries adopted policies that make joint ventures the only way to enter their economies;
- (ii) Complementary skills may be provided by the joint ventures partners;
- (iii) Joint ventures can be used as a means of alleviating country risk.

In addition, joint ventures may also be attractive when MNCs engage in big projects.

*“The World Investment Report (UNCTAD, 2000) identifies four factors that make a choice between FDI and M&As unattainable. The first of these factors is the level of economic development: the higher level of development of the host country, the greater will be the likelihood of M&As. Developing countries may not provide suitable target firms while providing attractive investment opportunities. Hence, Greenfield investment is more likely to be in the form of FDI in developing countries. The second factor is FDI policy: in a number of countries, there are restrictions and perhaps a total ban on M&As, in which case FDI will take the form of Greenfield investment. Third, institutional factors play a role in the sense that the use of M&As is affected by differences in corporate governance and ownership structure. It is often the case that M&As are inhibited by rudimentary financial markets and poor accounting standards, which make it difficult to assess the value of corporate assets. Finally, M&As are likely to take the form of FDI when the need arises to rescue ailing companies in the host country as a result of a financial crises or a similar mishap” (Moosa, 2002).*

These entry modes affect host countries, where the country seeks to one entry mode, while the investors prefer others entry modes. Libya started to enter new era, and it legislate new laws to attract FDI, and give the foreign investors freedom to choose entry mode to invest in Libya.

#### **2.7.4. THEORIES BASED ON OTHER FACTORS**

Theories based on other factors have been developed to explain FDI. These factors, which affect FDI, are:

##### **2.7.4.1. Political Risk and country Risk**

Political instability discourages inflows of FDI. Unexpected modifications of the legalisation and fiscal frame-works in the host country lead to Political risk, which may give negative results to the investment goals. (Wang and Swain (1995), Holland and Pain (1998), and Woodward et al (1997)). In general, they conclude that the main factors, which have driven FDI in transition countries, have been: a need to secure market access; opportunity to participate in large-



scale privatization processes; and the degree of political and economic stability. Wang and Swain (1977) tested the relative importance of independent variables, including political stability, the results shows that foreign investors prefer political stability and a free market system (Wang and Swain, 1977). Stevens (2000) makes an attempt to integrate a number of political and other non-traditional economic variables into a standard theory of FDI based on the maximization of expected value. The empirical results showed that the generalized model that contains additional variables is superior to the conventional model in explaining US FDI in Argentina, Brazil, and Mexico. The results identify that some of the non-traditional variables to affect FDI were subsets of the political stability variable. For example 'specific governments that appear hostile to FDI from the USA' and 'the number of years a government is in power' as well as 'pertinent legislation' and the 'debt crisis' were tested variables. (Stevens, 2000)

Libya is one of the countries characterised by political stability in the middle east, despite administrative organisations being characterised by instability due to the political regime has been adopted since 1977. Recently, Libya worked to reform the Libyan administrative system and improve its economy to provide an appropriate environment to attract FDI, including abandoning socialism, and opening markets to the private sector and encouraging local and foreign investors.

#### **2.7.4.2. Tax Policies**

The incentive to engage in FDI is affected by domestic and foreign tax policies, and the means by which it is financed. Jun (1989) identifies three channels through which tax policies affect the decisions taken by MNCs. First, the tax treatment of income generated abroad has a direct effect on the net return on FDI. Second, the tax treatment of income generated at home affects the net profitability of domestic investment, and the relative profitability of domestic and foreign investment. Third, tax policies affect the relative cost of capital of domestic and foreign investment. Jun (1989) also shows, by using an inter-temporal optimization model that an increase in domestic corporate tax rate



leads to an increase in outflows of FDI. Slemrod (1989) examined the effect of host country and home country tax policies on FDI in the USA and the results obtained indicate that increases in the US tax rate have a negative effect on FDI. Hartman (1985) concluded that the domestic tax rate on foreign income and the presence or otherwise of tax credits should be irrelevant to a mature foreign subsidiary.

Studies have been conducted to examine the effect of international taxation on FDI (Devereux, 2006). These studies encountered difficulties in identifying the effects of taxes on factor demands of MNCs. Hines (1996) argues that these difficulties are caused by the following factors:

- (i) Cross-sectional variation in national tax rates and tax systems may be correlated with a number of observable and unobservable factors that differ between one country and another;
- (ii) Time series variation in tax rates may not be adequate to identify tax effect, since tax rates change infrequently, and tax changes may be endogenous to unobservable economic conditions that effect factor demands;
- (iii) It is possible that tax policy has no effect, or only a trivial effect, on FDI.

Moreover, Hines (1996) examined a model showing that high tax rates have a significantly negative effect on FDI. Swenson (1994) examined empirically how taxes shape FDI, and found that increased taxes boosted inward FDI, while intuition suggests that higher taxes should discourage both foreign and domestic investment.

Libya has followed new orientations; where it tries to attract FDI, by giving advantages to foreign investors by freeing them of tax for the first five years. Moreover, it is possible to transfer losses to the next year. Furthermore, Libya

established a new law to reform the tax system completely in a procedure targeted to reform the economy.

### **2.7.4.3. Trade Barriers**

FDI might be considered as an alternative to trade. Therefore, trade barriers such as tariffs have an inverse relationship with FDI. Open economies without much restriction on international trade should receive fewer FDI in or out. Wang and Swain (1995) used a trade-weighted tariff rate to represent trade barriers, but it turned out to be an insignificant determinant of FDI. Yang et al (2000) used the same measure of openness and found FDI flows to be related negatively to the degree of openness of the economy; suggesting that FDI may be used to circumvent trade. A rise in the expected probability of protection from 5 per cent to 10 per cent means a greater than 30 per cent raise in the next period's FDI in or out for an average industry.

Libya has not joined GAAT yet, so according to this theory Libya is more attractive for FDI. However, Libya has adopted new commercial policies to reanimate the Libyan economy, such as allowing the private sector to contribute in different economic sectors.

### **2.7.4.4. Government Regulations**

Governments differ in policies towards foreign investment, some governments encourage FDI, some discourage FDI, and some remain neutral to FDI. Some governments adopt policies aimed at both encouraging and discouraging inward FDI by offering incentives on the one hand and disincentives on the other.

The incentives offered by host governments could be one or more of:

1. Fiscal incentives such as tax reduction, accelerated depreciation, investment and reinvestment allowances and exemption from customs duties. (Onyeiwu and Shrestha, 2005; OECD, 2007);
2. Financial incentives, such as subsidies, grants, and loan guarantees. (Christiansen et al, 2003; Sass, 2003);

3. Market preferences including monopoly rights, protection from competition arising from imports, and preferential government contracts. (UNCTAD, 2004);
4. Low cost infrastructure, fuel, and energy. (UNECA, 2004; PONGSIRI, 2004);
5. The provision of information by means of agencies located in the capitals of the source countries (UNCTAD, 2006);
6. A framework for clear, efficiently implemented stable policies with respect to FDI. (UNCTAD, 2005);
7. Flexible conditions with respect to local equity participation. (UNCTAD, 2005).

**Table 2.3: the FDI Attracting Incentives, and Libyan Applications**

<b>Incentives</b>	<b>Libyan application</b>
Fiscal incentives	Libya has legislated a number of laws to attract FDI, these legislations consider tax reduction, free tax, exemption from customs duties, etc.
Financial incentives	There is no clear application, but the Libyan government gives commercial banks more freedom, to give loans for investment projects.
Market preferences	Libyan economic policies abandoned its policy of protection. There has been no legislation to prevent monopoly rights.
Low costs	Libya is low-cost with regards to infrastructure, fuel and energy in the Middle East.
The provision of information	Libya is still suffering from a weakness of media to spread information, and the lack of an official database.
Clear framework	Libya is now in the process of conducting studies and legislation to develop a clear framework for dealing with foreign direct investment.
Flexibility in participations	New legislation gives more flexibility for participation between local and foreign investors.

Source: prepared by author.



*".... indicative of the extent to which governments will go to attract foreign investment is an advertisement that appeared in Fortune in 1995. In this advertisement, the government of the Philippines declared that, to attract foreign companies, the government had 'felled [sic] mountains, razed jungles, filled swamps, moved rivers, relocated towns.... all to make it easier for you and your business to do business here'. (Mossa, 2002: 55).*

**Table 2.4: Disincentives that restrict the FDI, and Libyan Applications**

<b>Disincentives</b>	<b>Libyan Applications</b>
Labour unions	No Workers unions can effectively direct intervention and exercise pressure on the companies to change their policies.
Political situations	Libya is one of the most stable countries in the region and there are no problems that would impact negatively on foreign investment, such as civil wars, kidnappings and political coups.
Social system	Libyan society is characterized as open minded and accepts different cultures and deals with them. Libyan community as a whole embraced Islam and believed the same doctrine and there is no intellectual current of extremism against non-Muslims.
Economic conditions	Libya changed its economic thoughts and adopted new orientations (that may make economic conditions more appropriate) to attract FDI.
Local workers	Libya still demands foreign companies hire Libyan workers - a small percentage of not more than 10%. These conditions may limit the FDI flows.
Profits transferring	Foreign investors consider transferring their profits an attractive factor, the Libyan authorities took that into account in the new laws to attract investment, and focused on the free transfer of profits.

Source: prepared by author.

However, unionized labour markets in a host country are considered as an impediment to attracting foreign investment. Some researchers such as Botrić and Škuflić (2005); and Leahy and Montagna (2000) believed that the policies that are subject to labour unions could distort economic activity severely, and reduce the efficiency of FDI. The overall environment of countries, comprising the political situation, the social system and economic conditions affect the

subsidiaries decisions to enter countries. Where, a suitable environment may attract FDI, some requirements, such as the ruling that MNCs employ a minimum number of local workers, and restrictions on profit repatriation discourage FDI (Tobin and Rose-Ackerman 2003).

Stoeber (1999) suggested a schema categorizing different functions performed by different levels of a government in developing countries in formulating its policy towards FDI:

- (i) Examine the mix of government directives and market forces that guide the country's economic activity;
- (ii) Determine the priorities for type's investment the government seeks; and the benefits it hopes to obtain from this investment;
- (iii) Draft laws, policies and regulations that govern specific investment;
- (iv) Employ the tools of input-output analysis, cost-benefit analysis, and balance of payments analysis to evaluate individual investment proposals (Mossa, 2002: 58).

#### **2.7.4.5. Strategic and Long-Term Factors**

Strategic and long-terms factors have been suggested to explain FDI. Rueber et. al (1973) list the following factors as being instrumental to the decision to invest abroad:

1. The investors' desire to defend existing foreign markets and foreign investment against competitors;
2. The desire to gain and maintain a foothold in a protected market or to gain and maintain a source of supply that in the long run may prove useful;
3. The need to develop and sustain a parent-subsidiary relationship;
4. The desire to induce the host country into long term commitments to a particular type of technology;
5. The advantage of complementing another type of investment;
6. The economies of new product development;
7. Competition for market share among oligopolists and the concern for strengthening of bargaining positions.



## **2.8. THE IMPACT OF FDI ON HOST COUNTRY**

There are many possible effects of FDI inflows on host countries. Since, it is generally taken for granted that investing firms possess some technology superior to that of host country firms, higher-quality goods and services could be produced either at lower prices or in greater volume than previously available, resulting in higher consumer welfare. Another possible effect would be that inward investment adds to the host country capital stock, thereby raising output levels. Because the foreign firms pay higher wages for domestic labour the average wage level in host country rises, these high wages are not always positive. While it might attract high skilled labour to the foreign firms, unskilled labour stays in the domestic firm (Lipsey and Sjöholm, 2005).

## **2.9. SUMMARY**

This chapter presents the different theories for FDI. This is to spotlight the different kinds of markets and notes the particular country circumstances. These determine how the theory of FDI works within one country and not within others.

In fact there is no single theory successful in all circumstances. While each theory might work perfectly in one country this does not guarantee success within another country, or in the same country at other times, and this depends on the particular economy conditions.

These theories have been presented here to benefit from the literature and previous experiences in this field. These theories are compared with what happened in the Libyan economy. The chapter identifies if there is any possibility to implement some of these theories, as will be discussed in detail in chapter five.

Because Libya adopted a policy of openness to the outside world recently, and its experience in attracting foreign investment is still low, it is seeking to benefit from the experiences of other countries in similar circumstances.



## **CHAPTER THREE**

# **HOUSING CONCEPTS, PROBLEMS, AND POLICIES**

### 3.1. INTRODUCTION

Housing plays an important role in countries' economies, and the housing sector represents a significant ratio of the total economic activity of most countries. However, in spite of the importance of housing, the commercial banks in Libya have only allocated a small proportion of total credit facilities for investment in this area, constituting 5.5% of the total credit facilities (Central Bank of Libya, 2004). The housing sector has also become economically and socially important due to the income expended on house rents. For instance, on average, poverty households in the US often spend more than 50% of their total income on rent (Quigley, 1999). That housing plays a key role in achieving the goals of community care has become recognized widely (Bochel, 1999). This role has increased dramatically since housing and social reform legislation demanded full implementation of the community care reforms in most countries world wide (Scottish Executive, 1999).

The majority of world governments play an important role in developing their housing sectors. Whilst almost every government adopts special programs which are harmonious with its economic situations and political ideology "Good programs are those with fewer holes in the bucket and hence fewer leaks" (Quigley, 1999:202).

As a result of population increases, and the inability of many families to provide their own dwellings, there is a need on the part of governments to play a significant role in solving their housing problems. However, the responses are different according to political ideology, and in those countries which believe in socialism, the government takes upon itself all responsibilities including housing, whereas liberal governments require the participation of their private sectors to solve their housing problems. In this respect, it can be said that government involvement becomes a significant matter, either as direct or indirect involvement. Whichever their political leaning, all governments should develop appropriate policies to solve their housing problems according to the particular countries situation.

Whatever the government circumstance, there are a lot of obstacles which curb a governments capabilities in eliminating the housing problem. Even developed countries such as the US. where "current assistance programs, provide large housing benefits to a small fraction of the poor, only about one out of every three poor households benefit from government programs, and about one out of every five households receiving housing assistance is not classified as poor. Alas, the American housing subsidy bucket does leak" (Quigley, 1999:202).

As a result of increasing demand for housing, many countries have changed their policies from provider of first resort to assistance. "This change can be described as a change of role of the local government whose main role is not to produce services, but to enable others to produce them" (Heins, 2002:1, 2).

To solve the housing problem, all institutions must cooperate in planning and the implementation of housing policy, "Cooperation is a necessity. In this case the local authorities and housing associations have to agree fully on housing policies, Most of the housing policy plans are a product of this cooperation" (Heins, 2002:2).

The impact of government policies on housing is not only in the public sector housing but also in the private housing sector "Policies that have an impact on private housing prices include policies concerning public housing" (Phang, 1997:1820).

Because of the importance of housing, governments prioritise this as an issue, but each time governments change, new housing policies are developed, for instance in the US "each presidential administration since the new deal has promoted its own programmatic cure for the "housing crisis". Kennedy and Johnson favored mortgage subsidies. The Nixon and Ford administrations heavily promoted granting fifteen-year rental income guarantee to new or renovated housing development tied to eligible tenants. The most recent Reagan and Bush administration policies represent a shift to consumer subsidies, including household rent supplements and the sale of the housing authority apartments to their tenants" (Salins 2005).



Therefore social, political, and economic imperatives combine in the formulation of housing concepts and housing trends.

## 3.2. CONCEPTS

The evolution of Human Sciences has accelerated as a result of the information revolution. It has spread across the world because of the ease of communications. Concepts of housing policy have been a part of this phenomenon. Housing concepts have seen much development over the last two decades, passing through various phases (Durah, 1988). It has changed from being a fairly simple concept to one that is more complex, moving beyond the basic need for the development of housing. In brief, the development appears as follows:

- A) **Narrow Housing Concept:** This refers to a place where people live. This concept is simple and not much more than a physical description of primitive dwellings (Jaffe, 1989; Priemus, 2005; Lujanen, 2004);
- B) **The Broad Housing Concept:** This encompasses the narrow concept, but also includes ancillary services, which stimulate people to live at home with stability, and security, and taking into account the social, economic, and political functions (UN, 1982).

Various schools of thought differ in their definition of the concept of housing. Each one adopts housing concepts according to its theoretical ideas and political ideologies. The underlying political system of a country determines what definitions of the housing concept are acceptable. This political pre-determination of 'acceptable housing policy' is recognized as a fundamental assumption and reservation within this thesis. It is noted, but excluded from any further debate, since it would constitute a full thesis in its own right. Regardless of ideologies and political systems, there is no doubt that housing is the most basic and important of physical needs, which everyone seeks to satisfy continuously. Thus the political systems attempt to respond to the demands of the people, in line with what is compatible with the political ideology.

The world, especially in developing countries in recent years, has witnessed many changes as a result of economic and political events. Such circumstances have led to a number of studies on the concept of housing (David, 1987). These studies have concentrated on three different trends used to consider the concept of housing, these being: the Marxist trend; the Liberal trend; and the Temperate trend (Soliman, 1996).

### **3.2.1. Marxist Trends**

Burgess and Castells (1932) adopted a definition of housing and its application according to a Marxian approach, where, the Marxian philosophy regarded housing as an essential and fixed commodity. They present three viewpoints of housing, according to this approach:

#### **3.2.1.1. Housing as an essential commodity:**

Marxist theory is loosely based on the work force, taking into account everything that will create the appropriate climate for the worker to be able to complete the production process. A house is regarded as an essential commodity for the work force and should be near the production location. Thus housing gained significance in improving industrial and economic development for different community classes. Without housing there is no labour force to realise the production. In addition, housing correlates with various industries, and consequently houses become one of the effective factors that affect the growth and boom of functioning capital in developmental industrial processes, therefore housing could be considered an essential commodity (Florida Statutes, 2006; Ayala and Navarro 2007).

#### **3.2.1.2. Houses as a fixed commodity:**

Houses are a long life commodity, and have generally fixed specifications. This means it is very difficult to vary or remove it through time. Since it must be built in a fixed location it becomes virtually impossible to subsequently change this location. Generally, land dedicated for housing is not permitted for real estate speculation in most socialist countries, and the land price is controlled by



government, since the government is the rightful owner of all the land in the region. This Marxist concept has gained support from both attributes; long life and constancy.

### **3.2.2. Capitalist Viewpoint on Housing**

The Marxist critique of the capitalist point of view on housing, where, the Marxian response is that capitalist countries regard housing not only as a commodity that has value in use but also as one that has exchange investment value in the housing market. Capitalist systems allow house building for sale or lease, whilst the Marxian approach to housing may be regarded as a fixed commodity approach where the occupiers of houses are unable to sell or lease it. According to the Marxian viewpoint and its ideology, it may be noticed that this approach considers only public houses and gives governments a crucial role in housing policy implementation. Therefore, countries that accept the Marxian philosophy have greater concern for public housing policies - that match predominant local political trends, and these governments play a greater role in building housing units than governments of other political persuasions.

### **3.2.3. Liberal Trends**

Liberalism has a different viewpoint based on an alternative ideology that takes the overall welfare of humans as the first priority. Turner (1972) confirmed four principal approaches in his analysis of the liberal trend in housing as follows:

- According to this approach, there is a distinction between housing as a noun, or as a verb because of the dynamics of the situation. If we use this philosophical view, the first definition as a noun reflects the static situation, which will lead to the fact that housing does not exceed the home place of residence. Since it does not involve anything else, it will not affect the housing market. The definition of housing from the perspective of housing as a verb reflects a dynamic situation. This definition clarifies the role of housing in the economy, and this would encourage the development of housing extending to meet the needs of



the population. Thus, it makes this approach very effective in the analysis of the housing market.

- Economic and social development encompasses all aspects of life in the community, and it is impossible to separate housing from the rest of the social and economic variables that change over time. Here we can say that housing is the developmental goal and also the means to achieve it. However, the most important function of housing is the effect on residents. The inhabitants of houses are themselves the main target in the liberal housing market mechanism, which aims at developing the invested capital to gain greater potential profit. In addition, housing can lead to fundamental developments as it is made up of elements of materials and services relating to various industrial and service sector activities and productivity, and therefore develops capital investment. This therefore represents a breakthrough opportunity in the economic development in the community of emerging countries.
- Human beings are a means of development; they are also its aim. The most important matter is the effect of housing on the inhabitants themselves. If the first goal of liberal development theory is the availability of capital to cover the expenses of the development process, then the main objective of the housing market is developing a mechanism for capital investment to achieve high profit potential.
- As a result of the different levels of financial, scientific, and cultural life of individual families, each family is different from any other. This affects the type of housing and how to design houses according to the individual family requirements. Each family has the right to select the type of housing they would like to live in, based upon several individual family factors, such as: family income; educational level and religion. Thus, the family is free to establish suitable housing within their own individual contribution and are not generally constrained by government policy.

Contrary to what was previously introduced in the Marxist selection it can be noted that this trend focuses predominantly on the role of the private sector and the housing policy is the burden of the private sector and personal initiatives.

### **3.2.4. Temperate Trends**

This trend is the analysis of the definition of housing in accordance with three inter-related aspects: the economic status of the family; the state of houses; and the method of allocation of housing (Nientied and Van der Linden, 1987):

- This trend believes that the economic situation of the family is the main characteristic for housing. Betterment or development of the housing unit is connected strongly with the economic position of the family, where maintenance or developing gives houses greater value, and this plays a great role in the housing market mechanism for various social classes;
- Most residential units have set specifications for suitable housing, and attention should be focused on the wider health and environmental effects for residential areas. Housing should be a concern not only for the resident family but for society in general, and utilities related to the housing sector must be provided, such as water and sanitation, electricity, etc;
- Housing is considered as a consumption commodity for the whole of society, where no family fails to aspire to obtaining suitable housing. The lack of access to housing and the consequential homelessness leads to the spread of social ills, where the treatment of these problems costs the authorities huge sums of money. The governmental political system must therefore provide dwellings for the public as part of its duties to achieve equality.

Due to the differences in political beliefs existing in different countries there are different policies from one country to another. Since each trend adopts special policies to achieve its objectives, countries can choose one or more of the policies to enable them to achieve the goals of their housing plans. These



policies can come from within one political trend or their can be a composite from a mixture of trends.

From the trends identified, housing can be defined as the final outcome from variant capital entering in the housing market mechanism, by construction, distribution, or managing the market.

### **3.3. HOUSING PROBLEMS**

Most countries, these days, suffer from some form of a housing problem. This has become one of the general features, especially in developing countries, of being unable to offer housing for large numbers of people. Housing demand does vary from country to country, but this difference depends on the characteristics of the country. Moreover, the housing problem can extend to affect all economic sectors in the community. Many factors cause housing problems. The most important factors are:

#### **3.3.1 Industrial and Economic Development in Cities**

Governments are keen to achieve economic and social development in their countries, and frequently engage in mega-projects to achieve economic growth within their cities. To achieve the desired objectives of these projects they must have the human and financial resources necessary to operate and be able to participate in the development process. Therefore, historically, large numbers of people have migrated to the cities from rural areas. Without the housing being in place, this migration of the rural population to the industrial cities leads to the creation of slum areas on the undeveloped outskirts of these cities. In economically advantaged countries, the housing shortage created by this migration can usually be met in a relatively short period of time. The public and private sectors generally combine to meet the shortages. However in poorer developing countries, suffering from a scarcity of resources, the governments can not meet the growing demands of urbanization. The result is that the private sector has become the main supplier of housing. In these economically poorer countries, the private sector – and typically the householders themselves –



cannot meet this demand and demand stays high for a relatively long period of time.

### **3.3.2. Increasing Urbanisation**

Housing problems are typically concentrated in big cities. The housing problem in developing countries is seen as 'basically' an urban problem. Therefore, governments generally consider solving this problem in urbanised areas. Rural housing problems frequently go unheeded. In many developing countries, cities have been growing rapidly since the early 1960s, and urban planning has been incapable of providing the infrastructure and basic services to those cities (Najwa, 1993). According to United Nations expectations (1990), about 90% of the world's future population increases will settle in urbanised areas, of which 60-80% of the future population in developed countries will settle in these urbanised areas, and the rest will settle in developed rural areas (UNCHS, "Habitat", 1990).

In the developing countries, movement of people to urban centres is outpacing the growth in economic enterprises. In and around urban centres, the presence of low-income settlements lacking even basic services is growing (McGranahan and Tacoli, 2005: p 15). These present and expected further increases in cities' populations because of a declining rural population have influenced the housing problem in cities as follows:

- Governments are unable to provide public housing for such large numbers of applicants, the phenomenon of slum building around the cities is spread;
- The result of the steady increases in the population in urban areas causes an unsustainably high density of population, where many people live in just one room;
- The population increases in most urban areas leads to increased demand for infrastructure and governments frequently do not meet these demands in a way that suits the population in the cities;

- The result of the concentration of business development in to cities creates a phenomenon of congestion and high population density;
- Migration from rural to urban areas also leads to a need for the building of new residential areas which encroach onto adjacent agricultural land, and therefore decrease the national agricultural product, which impacts negatively on the GNP;
- Governments work to provide infrastructure and basic services to residents such as education and health services according to specific plans. Therefore, these governments do not have the capacity to supply education and health services for unplanned migration;
- The result of unplanned migration and the inability to provide an adequate supply of housing has caused the phenomenon of the proliferation of irregular housing around cities, which leads to an imbalance in the fabric of urban planning.
- Large populations in cities and suburbs are using private and public forms of transport, and this leads to more congested roads, and unacceptably high public transportation densities. These lead to increased safety hazards on the highways and poor public health provision due to overcrowding on buses, trains, etc.

### **3.3.3. Neglect of Rural Areas**

Currently less than one third of the housing needed to meet the United Nations' commitment to halve world poverty by 2015, is being achieved globally. (IFAD, 2001). Although three quarters of the world's 1.2 billion extremely poor people live and work in rural areas, aid to agriculture, their main source of income, has fallen by two-thirds (IFAD, 2001). Yet despite communities having in puts to economic and social development plans, rural areas are still relatively neglected. This is largely as a result of devoting a large part of the investment and services to urban cities, in particular in developing countries, to the neglect of rural areas. Several social and economic effects occur because of this, such

as: the negative effect on the agricultural foods system; alterations to consumption demand; changes in the structure of property holdings of agriculture lands; decreases in income distribution; and changes in the structure of job opportunities. Therefore, most rural areas in developing countries face a number of developmental problems as follows:

- A large number of smallholders have opportunities to remain on their land. However, their land has become unproductive, because for farms to be economical there is a need for large areas of land. Therefore, they are forced to sell their land and migrate to the cities, and ex-farmers who are now landless seek employment opportunities in the villages where they live. These opportunities are rare and with limited income opportunities, so they finally resort to migration from the rural to the urban areas;
- Economic factors play an important role in the movement of people, since the main motive for migration from rural to urban areas is the personal economic benefit. From the perspective of economic development, much internal migration is "economic migration" to help achieve national goals. From a family perspective, however, individuals participate in internal migration not only to serve their country or further occupational ambitions, but also to improve or maintain the living standards of their families (Rowland, 1992). Most of those who migrate are young people with low levels of education (Speare, and Harris, 1986; ODI, 2006), where movement offers them greater job opportunities in large cities. The presence of supportive relatives at the destination can be decisive, leading to a family-based chain of migration as cited by The White House (2007). Migration may be ruled out in order to enable the family to stay together and assist each other irrespective of economic circumstances (Hugo, 1981) as cited by Rowland (1992).



- In the absence of feudalism because of improvements in the political systems to achieve social justice, properties are divided into smaller plots, but the profits from these lands are low, and thus the owners preferred to sell to the private sector, especially those that are adjacent to the cities. The result is land-use change from agricultural to residential, and investment uses.

#### **3.3.4. Shrinking of Financial Resources (Finance)**

In spite of their attempts to resolve the housing problems, developing countries suffer greatly from the lack of funding, which remains an impediment to the implementation of housing schemes. Even those that possess oil wealth are facing budget constraints, in addition to the responsibility for the development of national industrial and services sectors, which diverts sums from the housing budget. Therefore, there are two options: the first is the government provision of housing for only low-income people and ignore the national economic profit motive; and the second is the building of social housing, at low-cost and with low specifications. Where the private sector deals with housing as profitable projects, the main target of it is to maximise their profits. Moreover, most developing countries then lose control of commodity housing. Despite the fact that these countries could cancel proceedings on commodities related to housing or make it easier. Nevertheless, the housing market would still remain under government control, and without any financial commitments. (Aldrich, and Sandhu, 1995).

Private homeowners also have relative difficulty in raising mortgages in a poorly developed financial market, There is also little public funding available. (UN, 2001: 94). *“Governments must continue the transition from a provider of housing to an enabler of a housing market. Given widespread poverty and the social role played by housing, policymakers have in the past framed this sector exclusively as a welfare issue. However, this often led to unsustainable transfers of financial and physical resources, without an expansion in the supply of housing for the majority of people. In addition, this perspective stressed the role of the public sector as a provider of housing - rather than as a promoter of a*

*vibrant housing market. This orientation has changed over the past several years, as Governments across the Regions have in varying degrees moved towards a market model, and focused on the need to stimulate private sector involvement in housing provision. However, the ability of any Government to fully harness market incentives depends on political will – and importantly, on improvement within the public sector itself”* (Inter-American Development Bank, 2006). Unfortunately, the rate of housing development and provision has not been commensurate with the rate of population growth in the urban areas. Factors such as the lack of available finances, limited access to land and overall poor planning for the provision and distribution of housing have resulted in the situation whereby access to housing is severely restricted. (NDS, 1996).

### **3.3.5. Structural Statutes**

The majority of developing countries can not provide the huge number of housing units demanded by their population. Consequently the responsible authorities, in these developing countries, attempt to push the private sector to solve the problem. However, the private sector's motivation is different to governments, because their objective is to maximize their profits. Whereas, the public sector seek to social stability, This leads to conflicting goals between the public sector and private sector which makes reaching common goals elusive.

The weaknesses of the public sector and its inability to mobilize substantial resources for urban development therefore points to the need to give greater attention to private sources of finance, including the role of privatization of infrastructure services.(GUD, 2006). Therefore, governments have legislated to control the housing market, and that has led to the private sector reducing investment in the housing market for several reasons as follows:

- According to the legislation and laws in many developing countries; especially on housing leases, which limit the value of rental income? This results in income less than the potential returns on investment in the industrial and commercial sectors. Thus making investment in the housing sector, unavailable. These government institutions controls to



reduce the value of the lease have often led to the abandonment of private investment in the housing sector;

- Government controls of housing policies have led to a great difficulty in obtaining construction permits. Complex procedures and the many changes in building regulations have led many investors to cease investing in the housing sector;
- Government controls have led to the increased costs of housing units. The private sector has therefore stopped building simple houses and instead builds high-class houses, which provide a much bigger and faster potential profit.

### **3.3.6. Land Property Values**

Land dedicated to housing is the most important complementary commodity in housing units. Its effect on future development is influenced by the social and economic changes in the society. Every social class attempts to affect and control land use by the way in which it procures its land interests. Consequently, lands prices for housing can increase more rapidly than other types of consumption. Land prices vary according to the location in relation to the surrounding population (Trivelli, 1997). In particular; proximity to city centres and other important areas, and generally, land located in commercial centres is more expensive. Most importantly, the land price in the city centres becomes the principal determinant of prices for other areas. Land property law is different according to political systems, because while liberal ideologies believe in private property, factional property is the norm in countries with certain religious beliefs. Those countries that follow a socialist philosophy believe in the idea of community property. There are a number of influences on land prices, but the important ones in developing countries are:

- Government interference in land sales has led to an increase in the price of land which is available for building;



- Structural planning also raised land prices, because, by providing infrastructure land became worth more;
- In spite of the high demand for land, much land remains unused because of the absence of housing development laws, which forces people to keep the lands undeveloped;
- Agricultural land around the cities has been most readily turned into housing land, so the companies' demands have increased and thus prices in those areas.

### **3.4. PUBLIC POLICIES ON HOUSING**

Public policies on housing are different according to the nature of government, and developing countries chose one or more policy to try to solve their housing problems. Particularly, those housing problems are faced by low-income groups. Some countries prefer the government to be involved in the housing market via public housing policies; in these situations, the government will provide different levels of housing and realise urban development more easily. Others see building by personal capability as the best path to avoid housing problems, either by giving people loans, or by giving loans to communities for housing. In the first instance, the role of the private sector was extremely limited. In the second instance, the inability of the urban development authorities to meet the total housing demands has created large numbers of people still needing housing in every city. There are two crucial matters: firstly, housing policies need to be set in the larger context of economic development and industrialisation, and then accommodate the problems likely to emerge over the next decade or two.

Proposals relating to location and dispersal of industries will therefore be of increasing importance in the solution of the housing problem; and secondly, it is necessary to coordinate more closely the efforts of all the agencies concerned, whether public, cooperative, or private (PCGI, 2001: 617) . Regardless of the government role, there are a number of alternative or complementary policies that can be followed:

### **3.4.1. Public Housing Policies**

Supporters of public housing policies believe the government alone can meet the housing demand via public housing programmes. The majority of developing countries followed this policy as a short-term solution and one at less cost, whereas in most advanced countries, the public sector only offers 60%-90% of the total housing projects (Lea, 1979). That does not mean that public housing policy can satisfy all the demand because some people do not want to be a leaseholder and others are not able to obtain public houses on account of family size or distance from their places of work.

Public housing policy as formulated and implemented in developed countries might not be appropriate for developing countries. For example, the British and American government build houses via public housing and rents this to a named tenant. The UK considers to implement policies based on letting (Brown and Yaset, 2005; Brown and King, 2005), but this policy may need some modification in order for it to be suitable in developing countries, where several families could often wish to live together and share in the housing costs (Bayuomy, 1999), whilst still having the security of named tenure.

### **3.4.2. Personal Capabilities**

Personal capability for housing appeared in the early 1960s, when house users became more active and efficient in forming groups like housing circles. Participation in this type of arrangement can take several forms, likewise self-building, or building in co-operation with someone else, or participation in the decisions related to housing (Abrams, 1966).

In such situations, the government role is one of supervision and decision-making. In addition to participation in building housing units, a number of characteristics are manifest in developing how communities in cities and surrounding districts, such as the demand for labour, construction materials, and other housing-related service sectors (Ahmed, 1996). Personal capability through the distribution of responsibility between government and housing users can be divided into two kinds. The first is non-pilot personal capability in which

people have full responsibility, and the second is controlled personal capability in which responsibility is distributed between government and people. For such a policy to be successful, the following features must be present:

- Elimination of legal barriers, which cause complications in obtaining land;
- Simplification of procedures pertaining to the possession of land, releasing housing locations, building licenses, and loans;
- Augmentation of free infrastructure, or provision of official aid;
- Work to actuate people to use local materials;
- Creation of pilot projects and building prototype samples that are suitable for the local conditions.

### **3.4.3. Improvement and Upgrading Policy**

This policy depends on personal capability and human participation whilst deriving advantage from the possibilities to develop civic environments in all aspects such as betterment of the infrastructure, roads, water systems, electricity, and cleaning and tidying of developmental spaces (Soliman, 1996). Moreover, this can mean the improvement and/or upgrading of existing housing units in areas, which have suffered from deterioration, or are run-down areas and unofficial shanty sectors (Najwa, 1993). The improvement and upgrading target can be summarised as follows (Soliman, 1996):

- To improve public health;
- To promote the economic levels necessary to develop personal residences;
- To provide residents with services and local security;
- To convert unauthorised housing to legal housing residences via title deeds given to property owners in these areas.



Although this policy offers a partial solution for the housing problem, even now it meets a lot of objections on account of its high economic cost.

#### **3.4.4 Sites and Services Policies**

Sites and services policy is considered as an efficient policy that has attracted wide consent from housing experts (Mayo and Gross, 1987; Muraya, 2006). Plots of land are provided with necessary services, for instance: public utilities; water; electricity; roads; social services; etc.; and can be allotted free of charge for people who can not pay, according to a means test based on family income, in order to prevent abuse of the system (Soliman, 1996). Both sites and services policies and improvement and upgrading policies are regarded as integral to the personal capability policy (UN, 2007), and all of them lean on a number of elements:

- Utilising the capabilities of the poor classes, and the savings and investments (time, money and proficiency) in unauthorised housing residences;
- Stimulating the unplanned part of the private sector to drive revenue to aimed and legal investment;
- Creating an environment of trust between various sides (government bodies, experts and residents) in applying the public contributions method as one of the best techniques to gain the best revenue from people living in residences, because the government can do nothing alone;
- Stimulating good relationships between partners in mutual assistance programmes, because personal capability building will be successful, if the will to share in the work is evident;
- For personal housing to be successful, it must be proficiently managed. The project must be connected between beneficiaries and the principal authorities that advise the beneficiaries during all the building process.

### **3.4.5. Wet Core Policy**

This policy has appeared as a method to reduce costs, which public bodies expend to people, particularly low-income people, for building lower cost residences instead of building whole public housing's schemes. Basically, this idea involves establishing the wet part (kitchen and bathroom) and connecting basic utilities via specialist contractors, then defining the remaining land area to complete the wet core unit. The core area fluctuates between 80–150 square meters according to societal circumstances. To reduce the cost of supplier utilities, wet core units are built adjoining each other (UN, 2007).

### **3.4.6 Core Housing Policy**

Perhaps it is impossible for governments in developing countries to provide houses for everyone who wants one because this would be an enormous financial cost and most governments cannot fund such a proposal. So governments might resort to building a low quality housing option in order to reduce costs, or alternatively choose a second option that is core housing, which essentially involves building the first cell, establishing one room, a kitchen, and bathroom, and leaving enough space for vertical and horizontal extension in the future. (UN, 2007).

## **3.5. THE PRIVATE INVESTMENT IN HOUSING**

Private investors in developing countries still avoid incursions into investment in the housing sector, which still has a high degree of risk, and the question of a sense of civic or humanitarian aid does not affect their investment decision. However, to solve problems like these, forces must unite. Although when speaking about a housing crisis, we should take a more positive attitude and say that there is a demand and a market here, argues CNL (Caisse Nationale du Logement) National Housing Fund chairman Mr. Nacer Djama.

*"It is a market in which the state is fulfilling its share of responsibility but which is open to the private sector, for both domestic and foreign capital. To be sure, the shortage of housing is a problem. However, the concept of crisis would imply that we*

*have neither the financial means nor the tools to fix it, which is not true. It is just we lack investment in this area, above all from the private sector, be it domestic or foreign”.*

In this matter there is no difference between most countries, for instance, a study by HACAS, (2005), according to which the UK government announced recently that the Housing Corporation will be asked to consider implementing flexible housing schemes. This study suggests that this will be a first stage in rationalising the patchwork of housing subsidies and taxes that has developed historically. The research reveals the current system to be inadequate for maximising private investment in housing, making public investment ineffective. Nor is it encouraging practices that will protect housing investment in the long term (JRF, 1998). However, the investment advantages in the housing sector are represented in the following points:

- Not only, is it a key engine of national gross domestic product, but it creates jobs at a local level, boosts tax revenues for government and increases revenue for all kinds of businesses;
- The construction of new houses and flats contributes to increase GDP. In addition, the housing sector consumption expenditure such as monthly payments will rise;
- According to Sichelman, (2003) at the local level, a positive economic impact is felt even before the first shovel hits the ground, and continues for as long as the housing is occupied by the household continuing to purchase locally produced goods and services;
- The construction of single-family houses generates a new income to local businesses and workers in the year the houses are built and every year thereafter;



- Sichelman (2003) adds,,: building 100 new houses creates 257 jobs in the community where they are located and 75 jobs every year thereafter in support of families who eventually occupy them;
- In addition, the impact of building houses reached “far beyond” the construction sector into all phases of the economy; local government realises new revenue, as not only builders expenditure and taxes but so to the various and numerous businesses which serve the growing population;
- For foreign investors, new markets will be opened to them in the housing sector;
- Investment in housing creates other new projects related to sectors such as infrastructure and public utilities;
- Successful investment in the housing sector will lead to further expansion of the size of investment in the new markets;
- The velocity of capital retrieval and harvesting of profit in the housing sector encourages investors. In some countries, the executer starts selling housing units before the developer starts spending on project.

### **3.6. LIBYAN VIEWPOINT**

Libyan studies, and official reports, pointed to the housing concept that has been adopted in Libya, were mixed between Marxist concept and temperate trends, as will be presented in chapter five in more detail.

Moreover, these studies and reports, which investigated housing history in Libya, since the 1970s, illustrate the different policies that have been implemented in Libya such as public housing policy, personal capability, improvement, and upgrading policy, etc. It also explained the nature of problems which faced the Libyan authority to implement housing policy. The main ones are; lack of finance, inadequacy of experience, etc., more details will be presented in chapter five.

### **3.7. SUMMARY**

Considering the variety of housing policies available to be followed, it can be seen that every political system realises the dangers of not addressing their housing problems. In addition, every country, according to its resources, attempts to provide housing for people, in the best ways it can. Developing countries have more constraints than developed countries and fewer resources. It is possible to divide the housing policies in developing countries into two main approaches:

- Housing that governments have built, in an arrangement whereby the administration itself or private companies assume the planning, design, and building, and then the government loans or sells allowing payment by instalments;
- Housing that people themselves have built, or that has been built by groups using loans from government or banks.

To examine to what extent the housing policies in Libya are a success, there is a need for a comparison between the aimed targets in the housing plans, and the achievements that have been gained.

Finally, housing policies are not irrevocable and they can be improved from time to time as previous experiences provide lessons for the future. Modifications and developments to these policies affirm the continuing problem, in which international forces must co-operate to solve. To do that, they must promote a suitable environment to encourage international investors to become involved in the housing sector and to contribute their technical experience and huge financial capabilities.

Full clarification of these issues will be presented in chapter five.

## **CHAPTER FOUR**

# **RESEARCH METHODOLOGY**



## 4.1. INTRODUCTION

This study is an attempt to examine the problem of human behaviour in investment, thus falling under the social research remit. It can be said, in brief, that social science research is the purposive and rigorous investigation that aims to generate new knowledge. It is the intellectual tools of social scientists, which allows them to enter contexts of personal and/or public interest that are unknown to them, and to search for answers to their questions. Social science research is about discovery, expanding the horizons of the known, with confidence, new ideas, and new conclusions about all aspects of life (Sarantakos, 1993, 1998, 2005).

Literature on research methods/methodology in social science often suggests that qualitative research is more appropriate than quantitative research for researching into an event or social process (Berg 2001, Ghauri et al 1995, Morgan and Smircich 1980, Nord and Tucker 1987). It is particularly difficult to meaningfully express quantitatively such things as historic change, a person's experience or behaviour, or a phenomenon about which little is known. This is because in these situations researchers can no longer remain as external observers, measuring what they see. Instead, they must become insiders to investigate from within the subject of the study.

Notwithstanding this vast domain where exploration sometimes or frequently occurs, its recognition as an important procedure and personal orientation is generally missing in the modern world. In the social sciences, including even qualitative research circles, the idea of exploration is usually mentioned, if at all, only in passing, as evidenced by a short statement by Boulmaer (1969: 40-42) and Glaser and Struass's (1967) *"The Discovery of Grounded Theory"*.

Qualitative research such as grounded theory, for example, also has the potential advantage of providing intricate detail and in-depth understanding of the phenomena being studied.

The driving force behind any type of social science research is its philosophical framework. This dictates not only the general perception of reality and social

relations but also the type of methods and techniques available to researchers and the motives and aims of the research. The aims of social science research can vary significantly, depending on the theoretical orientation of the framework that guides the research; Sarantakos cited the aims of social science research in general as following (Sarantakos, 2005: p 12):

- explore social reality for its own sake or in order to make further research possible;
- explain social life by providing reliable, valid and well-documented information;
- evaluate the status of social issues and their effects in society;
- make predictions;
- develop and/or test theories;
- understand human behaviour and action;
- offer a basis for a critique of social reality;
- emancipate people;
- suggest possible solutions to social problems;
- empower and liberate people.

In the social science realm, methodology is one way of ensuring the validity of knowledge about the social world (Strauss and Corbin, 1998: 4). Commonly, the nature of the research determines what methodology should be followed to achieve the study's aim through meeting the objectives. This study included a number of elements, which fed into the development of an exploratory framework multi-methodology approach. The major prevailing methodology that has been followed is *exploratory-grounded theory*. This will be justified in the following sections.

## 4.2. PHILOSOPHICAL APPROACH

Methodology literature illustrates the most common philosophies (Jonathan, 2004). Positivism and phenomenology are two alternative research philosophies. The positivist approach focuses on developing and testing hypotheses and generalising research findings from data, whereas the phenomenological approach aims to develop a deeper understanding of

ambiguous and multidimensional concepts through exploratory techniques (Easter-Smith, Thorpe and Lowe, 1994; Harrigan, 1983 a; 1983 b). Although there can be exceptions, the positivist approach tends to employ more deductive quantitative methods such as experiments and surveys, whereas the phenomenological approach tends towards the more qualitative methods such as observation, in-depth interviews and group discussions. It appears that there has been much philosophical debate about which of these research philosophies is superior, and more appropriate for research in the social sciences (Bryman, 1984). However, phenomenological research has started receiving more attention over the last two decades as in-depth and exploratory research studies provide explanations and, or understanding of social and cultural dimensions of researched areas. Furthermore, several studies adopting a phenomenological philosophy and based on using qualitative methods have had great results, for instance (e.g. Chandler, 1962; Mintzberg, 1973; Peters and Waterman, 1982; Moss-Kanter, 1983; Hamel and Prahalad, 1989; Pettigrew and Whipp, 1991; Pettigrew, Ferlie and McKee, 1992).

It can be said that there is no ideal research technique in the behavioural sciences. "All methods have good and bad features. The advantages may lie along one dimension, such as economy; the disadvantages along another, such as objectivity. The goal of the researcher is not to find the single best method. For most problems, several procedures will be better than one, even though each has its limitations; these tend not to be the same limitations" (Sommer and Sommer, 1980: 7). Multi-methods have been chosen to benefit from their characteristic differences in research (see table 4-1).

According to Yin (1994) case study is one of five types of research design, these different types are experiment, survey, archival, history, and case study.

To satisfy the overall aim of this research project, it was decided that the most appropriate research strategy would be to follow the phenomenological research philosophy by using an exploratory methodology and multi-methods in adopting qualitative and quantitative methods, using techniques such as



observations, semi-structured interviews, questionnaire, and documentary survey.

**Table 4-1: Differences in Theory in Quantitative and Qualitative Research:**

<b>Quantitative</b>	<b>Qualitative</b>	<b>Differences</b>
Deductive	Inductive	Logic of theory
Begins from theory	Begins from reality	Direction of theory building
Takes place after theory building is completed	Data generation, analysis and theory verification take place concurrently	Verification
Firmly defined before research begins	Begins with orienting, sensitising of flexible concepts	Concepts
Inductive, sample-to-population generalisation	Analytic or exemplar generalisation	Generalisation

Source: Sarantakos, 1998: p 15.

This is to provide a wide knowledge and develop a better understanding of the complex and under-researched area of how to attract Foreign Direct Investment (FDI) in housing in Libya. Table 4-2 illustrates the strategy that is adopted in this research.

**Table 4-2 The Adopted Strategy in the Research:**

<b>CONCEPT</b>	<b>USING APPROACHES</b>
Philosophy	Phenomenological Philosophy
Methodology	Exploratory Research Methodology
Methods	Qualitative and Quantitative
Techniques	Observations, Semi-Structured Interviews, Questionnaire, Document Analysis
Approach	Exploratory Case Study

Source: prepared by the author.

### 4.3. ALTERNATIVE METHODOLOGIES

The aim of this research is to explore and analyse findings from comparing Foreign Direct Investors' requirements and Libya's readiness to provide a suitable environment to attract foreign direct investment in housing in Libya. Therefore, a methodology is required in this research to achieve the aim.

Pires et al (2003) use the exploratory methodology in studies determining the effects of ethnicity group in marketing. They argue that they used the exploratory methodology due to the paucity of previous studies and the scarcity of information about the subject of research. McDougall and Hinks (2000) adopted the exploratory methodology in their study to highlight the benchmarking of facilities management. They argue that using an exploratory method means entering without hypothesis, or presupposition, and reports and analyses the situation as experienced.

According to the few studies of how to attract FDI in Libya in general such as Jomah (2006); Aljerbi (2006); Alfotaisi (2006); Altomi et al (2006); Almansory (2006); Benmoosa (2006); Zaki (2006). There are no studies deals with attracting FDI in the housing sector in Libya particularly. Therefore, due to the rarity of studies in this field an exploratory methodology can be the best to explore determinations of how to attract FDI.

As the term suggests, exploratory research is often conducted because a problem has not been clearly defined as yet, or its real scope is as yet unclear. It allows the researcher to familiarize him/herself with the problem or concept to be studied.

Exploratory research means that hardly anything is known about the matter at the outset of the project. The study begins with a rather vague impression of what to study, and it is also impossible to make a detailed work plan in advance.

The research began with a survey of the published literature on the foreign direct investment generally, and then focused on the investment in housing in particular. By the literature survey, it can be determined what are the most

important determinants affecting FDI direction and the attraction of FDI to invest in some places and not in others. These determinants will be used as criteria to measure what Libya already has prepared to attract FDI, and what should be prepared in future. The second part of the literature survey related to Libyan statutes and governmental decisions during the period 1970 to recent years.

In investigating the aim of this thesis – How to Attract Foreign Direct Investment to invest in Libya - the FDI criteria and current Libyan preparedness lead to the following:

First objective: Investigate to what extent Libya needs new housing; the study is based on the shortage of housing in Libya, therefore the research needs to prove there is a shortage in housing, It starts monitoring observations about the problem, then surveys the studies that deal with it. In addition interviewees' answers and government correspondence and pronouncements will be used;

Second objective: Understand the reasons that have caused a shortage in housing; this objective will be achieved by a survey of government correspondence and pronouncements and interviewees answers in the semi-structured interview in the section relevant to this issue;

Third objective: Evaluate Libya's attempts to solve the housing shortage problem; state' plans that intended to solve housing problem will be presented. Moreover, plans' targets will be compared with the executed units;

Fourth objective: Determine what Libya has done to attract international investment in housing; to reach these objective Libyan legislations and government decisions related to attracting FDI will be reviewed and compared with interviewees' answers;

Fifth objective: Determine the investor's criteria to invest in housing in Libya; literature of FDI has been surveyed and investors' questionnaires answers will be employed to achieve this objective;



Sixth objective: Explore the benefits for both Libya and international investors; both foreign investors' questionnaires and Libyan functionaries' interviews answers will attain this objective;

Seventh objective: Define the essential conditions for attracting international investment; sources referred to above will be concerted to achieve this objective.

#### **4.4. ALTERNATIVE METHODS**

Multi-methods have been justified in section 4.3 above. By using qualitative and quantitative methods to analyse collected data; qualitative methods have been chosen to analyse open-ended questions in the semi-structured interviews and the questionnaires, literature, documentary survey and observations (Sarantakos, 2005); quantitative methods have been used to analyse parts of the semi-structured interviews and questionnaires with responses that were closed ended (Robson, 2002); (Sarantakos, 2005).

#### **4.5. ALTERNATIVE TECHNIQUES**

To obtain the information to achieve the aim of the study, several techniques were used. Observation was used, since data from direct observation can often usefully complement information obtained by virtually any technique (Robson, 2002). Observation is a widely used method in flexible designs; particularly those that follow an ethnographic approach. Structured observation is almost exclusively linked to fixed designs, of both experimental and non-experimental types. Both styles call for a heavy investment of time and effort and should not be used without careful consideration of their resource implications in a real world study. Concentration on these two approaches has tended to eclipse a third one, which may be styled unobtrusive observation. Its defining characteristic is that it is non-participatory in the interest of being non-reactive. It can be structured but is more usually unstructured and informal (Robson, 2002).

The study of literature and analysis of documentation gives the study much depth. Therefore, studies and documents related to research have been

appraised. But because of the nature and culture of Libyans, interviewing was the best way to obtain the requested data and information. For investors, given the difficulty of access to them, the best choice was to send out a questionnaire.

To collect data there are many methods that could be used, that depend on the research nature, where one method of research might fail whilst another can be successful. Accordingly, the researcher should be attentive when choosing the samples and what kind of data to collect? Also, how should the data and target groups be classified?

No single data collection method has complete advantage over the other data collection methods, in fact they are often complementary. Therefore, it is recommended that a good case study should use multiple sources of evidence to achieve broader and often superior research findings. It is also believed that triangulation generates in-depth research findings, and wider perspectives about the research phenomena. In addition, using multiple data collection methods is particularly recommended in terms of the validity of the research findings (Denzin, 1998; Huff and Reger, 1987; Hartley, 1994; Harrigan, 1983a; Robson, 1993; Yin, 1994). Moreover, multiple data collection sources can produce a more complex, holistic and contextual portrait of the phenomenon under study, and the corroboratory evidence is also likely to make the findings and the conclusions of the study more convincing and accurate, thereby increasing the validity of the study (Eisenhardt, 1989; Ghauri et al 1995; Yin, 1994). Accordingly, multiple data collection was used in this research. Therefore, observation, documentary survey, semi-structured interview, and questionnaire techniques were adopted.

#### **4.6. THE ADOPTED APPROACH**

The use of a case study approach has become extremely widespread in social science research (Yin, 1994), particularly with small-scale research (Tolbert, and Downing, 1995); (Celuch et al, 2007). When researchers opt for a case study approach they refer to a set of related ideas and preferences which, when combined, give the approach its distinctive character (Denscombe, 2003:30). A



case study approach has been adopted in this research in both a qualitative and quantitative method. In a quantitative method case study is employed as pre-research, that is, as an exploratory study. As a qualitative method, the case study appears as the main study, as a research enterprise of their own that aims to develop hypotheses or even theories. Case studies investigate social life within the parameters of openness, communicatively, naturalism, and interpretatively, as informed by the interpretive paradigm (Sarantakos, 2005). What is lacking in breadth and generalizability may be compensated for by greater depth (Sommer and Sommer, 1980).

An exploratory case study approach was therefore chosen in this study, since it will be useful for exploratory studies of this kind (Yin, 1994). It is expected that this approach will provide an opportunity to explore how to attract FDI in housing in Libya in some depth through the systematic piecing together of detailed evidence in context (Stake, 1994; Yin, 1994).

The main point in this study is elucidation of the harmonic point between the Libyan authorities desire to attract FDI and the investors decisions to invest in housing in Libya.

The research design therefore aims to satisfy the research aim and objectives. Yin (2003) defines the research design as: guiding the investigator in the process of collecting, analysing, and interpreting observation. The research design must clarify the nature of how the questions will be answered, and how the researcher intends to deal with them. In addition, research design provides the plan and structure, which give the expected results an explanation.

Moreover, Yin (2003) states that case study research could be based on single or multiple case studies. Employing a multiple or single case study approach depends on the kind of case study to be carried out. As in all approaches case study has advantages and disadvantages, as well as strengths and weaknesses.



### **4.6.1. Advantages and Disadvantages of the Case Study Approach:**

Denscombe (2003: 39-39) states the advantages and disadvantages of the case study as the following:

#### **4.6.1.1. The Advantages:**

- The main benefit of using a case study approach is that the focus is on one or a few instances that give the researcher opportunity to deal with the subtleties and intricacies of complex social situations. In particular, it enables the researcher to grapple with relationships and social processes in a way that is denied to the survey approach. The analysis is holistic rather than based on isolated factors;
- The case study approach enables the researcher to use a variety of research methods. In addition, what can be said is that it encourages the use of multiple methods to establish the complex reality under the microscope;
- In addition to the use of multiple methods, the case study approach fosters the use of multiple sources of data in parallel. This, in turn facilitates the validation of data through triangulation;
- The case study approach is characterised by it being particularly suitable for the researcher with little control over events. Because this approach is to examine the phenomena that occurs naturally, there is no pressure on the researcher to impose controls or to change the conditions;
- The case study approach can fit in well with the needs of small-scale research through concentrating effort on one research site or just a few sites;
- The case study approach can be used in both theory-building and theory-testing research to good effect.

#### **4.6.1.2. The Disadvantages:**

- The most important criticisms that were directed to a case study approach are those related to the credibility of generalisations from the results. Research using a case study needs special attention to dispel

doubts and to demonstrate how similar other cases are, or how a particular study is in contradiction with others of its type;

- Case studies are often criticised because it is perceived as producing soft data. The approach gets accused of lacking the degree of rigour expected of social science research. This tends to go alongside the view of case study research as focusing on processes rather than measurable products, and relying on qualitative data and interpretive methods rather than quantitative data and statistical procedures;
- It is often difficult in a case study to determine the absolute and clear conclusions. There is a difficulty in determining what sources of information are for inclusion in the case study, and the justification for excluding any;
- Negotiating access to the case study setting can be a demanding part of the research process. Research can flounder if permission is withheld or withdrawn. In case studies, access to documents, people, and settings can generate ethical problems in terms of things like confidentiality;
- Researchers are hardly achieving their aim of investigating situations as they naturally occur without any effect arising from their presence. Because case study research tends to involve protracted involvement over a period, there is the possibility that the presence of the research can lead to the observer effect. Those being researched might behave differently from normal owing to the knowledge that they are under the microscope.

#### **4.6.2. Strengths and Weakness of Case Studies:**

As the case study has advantages and disadvantages, it generates the strengths and weaknesses of this method according to Sarantakos (2005: 216-17).

##### **4.6.2.1. Strengths of Case Studies;**

- Gives researchers the opportunity to conduct in-depth research;
- Provides initial information of work in a natural setting;

- Encourages familiarity and close contact with the informants through employing a variety of methods;
- Allows the employment of a variety of interrelated methods and sources;
- Involves long-term contacts and personal experiences in the field;
- Direct and verifiable life experiences are at its centre of attention;
- Produces information that covers the whole unit and not only small aspects of it.

#### **4.6.2.2. Weaknesses of Case Studies;**

- Results relate to the unit of analysis only and allow no inductive generalisation;
- Findings entail personal impressions and biases; hence no assurance of objectivity, validity and reliability;
- Research cannot be replicated;
- There is limited subsequent access to the field and to the personal and subjective information that constitutes the basis of case studies;
- The interviewer effect may cause distortions; even the presence of the researcher in the field can be destructive.

There is no method free of problems, and case studies are no exception. Overall, they are a most useful and popular method, as legitimate as any other method of social research (Sarantakos, 2005). *“Case study research can be based on single-case or multiple-case studies. Further –whether single or multiple the case studies can be exploratory, descriptive, or explanatory”* (Yin, 1994: 5).

This research is considered as a single exploratory case study as it attempts to gain the full advantages that are provided by bringing rich data into the issue under investigation and ensuring realistic investigation of these issues. This research will be based on a single case study approach to illustrate how to attract FDI to housing in Libya.



## **4.7. DATA COLLECTION**

Data-Collection strategies ensure conformity to predictions to generate valid and reliable results. The collected data, from numerous sources is grouped, using an objective measure or expert ratings to obtain a single score representing each group as a whole. In this way, the homogeneity of the data within groups is ensured (Klein, 1994).

### **4.7.1. Nature of Research Data**

A number of methods can be used to gather requirements and identify tasks for research. Because there are no "one method fits all" studies, the specific requirements, research nature, and objectives of research will usually dictate the appropriate method or methods to use. Additionally, each method of data collection has its strengths and weaknesses, and these varied methods allow researchers to evaluate which method is most appropriate for a given situation. Both primary and secondary sources were used in this research. Secondary data of this study was mainly collected through official documents, legislation, government decisions, and reports. In addition, previous literature on the subject has been captured, from various sources such as relevant textbooks, journals, unpublished theses, international organizations' publications. The purposes of using secondary data were two-fold: to help to better interpret and understand primary data and to supplement empirical data in better understanding the determination of attracting FDI to invest in housing in Libya.

Primary data was obtained through observation, semi-structured interview and questionnaire

This research is characterized by dealing with two different 'behaviour' groups, every group looking for the most benefit from the relationship with the other.

Group 1: this group represents the Libyan side, and comprise governmental functionaries in legislative and executive sides as listed in section 4.8.2.

Group 2: this group includes foreign companies, which work in construction, those that have experience in Libya and that ones have not, as showed in figure 4.1.

Therefore, data should be collected from both host country and investors, where government functionaries represent the host country's opinion and foreign companies represent foreign direct investors' opinion. Therefore, data has been divided into two categories; an appropriate method has been designated for each.

Semi-structured interview has been designated for Libyan functionaries, and a questionnaire has been designated for foreign construction companies. Figure 4.1 illustrates the overall approach. Every category comprises a number of groups. Where the host country category includes both levels of decision makers, and decision executers in the legislative and functioning side. Foreign companies comprise two kinds of companies; the first kind are companies who have already experience of work in construction in Libya, the second kind is those companies that did not have any experience of work in Libya.

#### **4.7.2. Triangulation**

Methodological triangulation involves researchers using several methods to gather data relevant to the study. Using a predominantly qualitative research strategy can be enhanced by using more than one measuring concept. Triangulation has been employed in this study because a single method is not adequate to solve the problem of various factors under investigation. Moreover, this method enhances the validation of collected data. As cited by Jennings (2001: 151): "triangulation is not a tool or a strategy of validation, but an alternative to validation" (Denzin and Lincoln 1994 p.2). An operational plan of action was constructed to assist in carrying out the data collection activity. The plan was drawn from a triangulating approach of three main sources of information, documentation review, questionnaires, and interviews. (See figure 4.2)

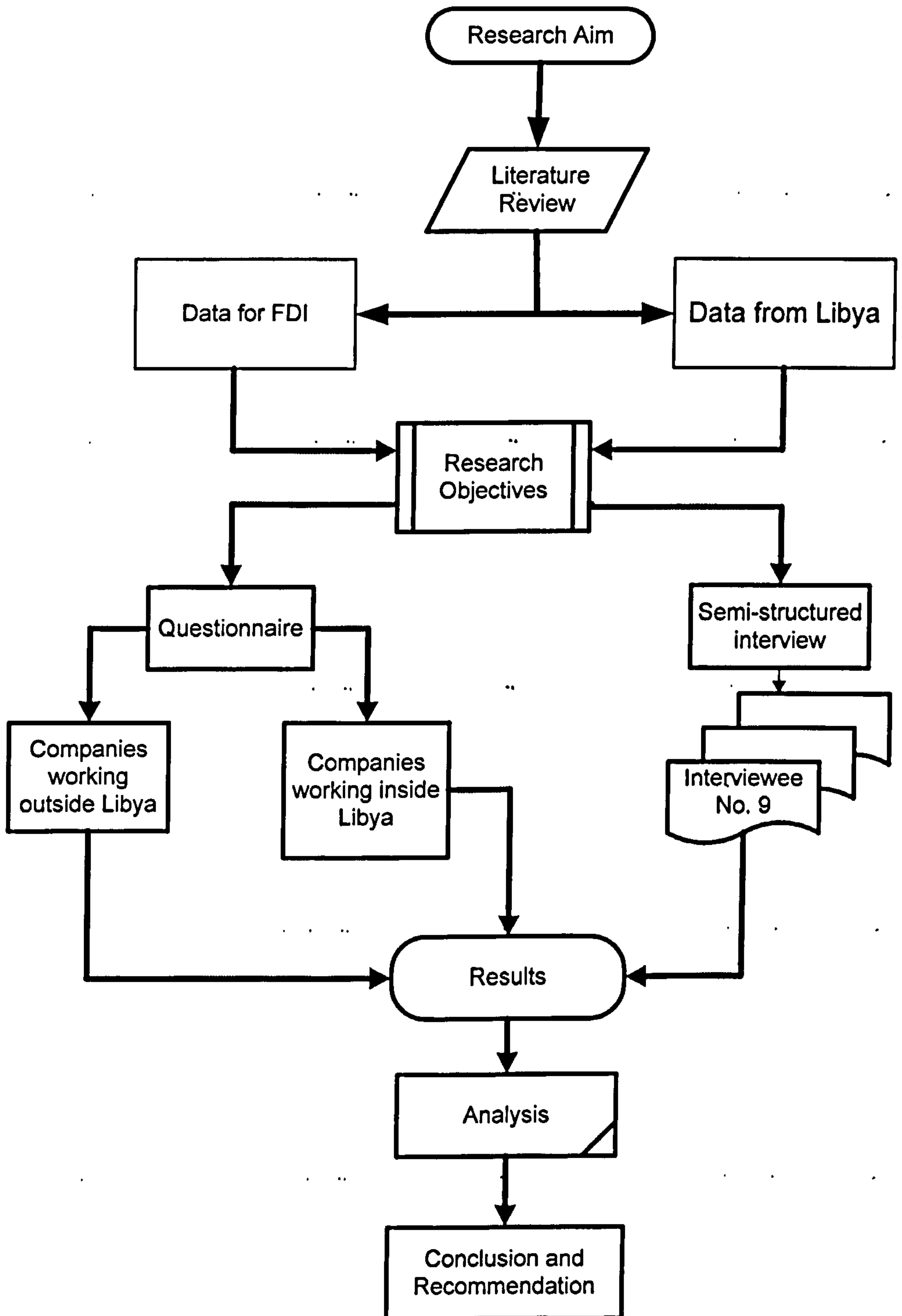
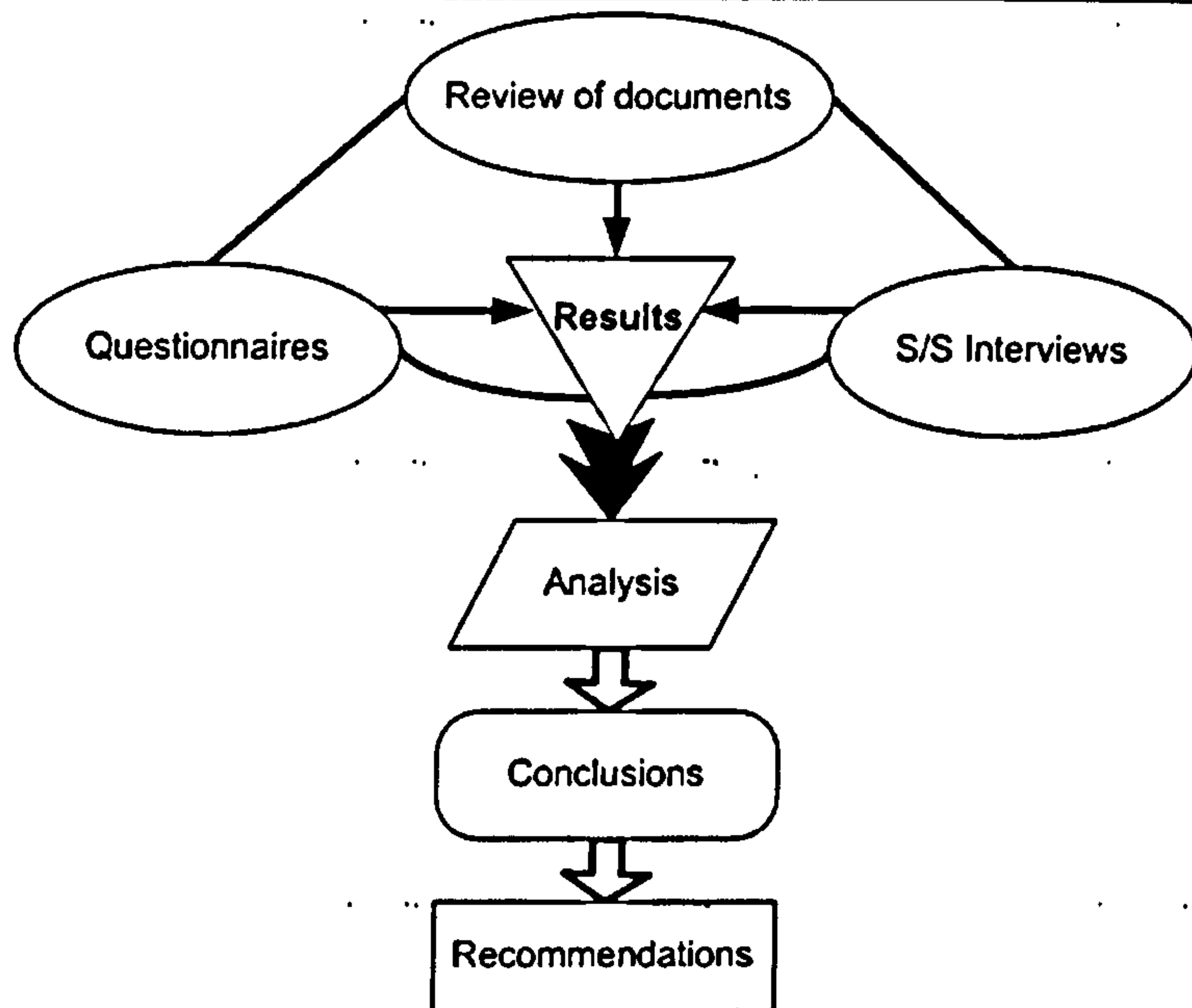


Figure 4.1: Design of Data Collection





**Figure 4.2: Case Study Information Sources Triangulation**

## **4.8. Means of Collecting Data**

To collect primary data for this research, two groups have been selected, the first group is government functionaries, where face to face semi-structured interviews were conducted with the government functionaries (see appendix 1). The second group is foreign companies, where questionnaires have been handed to some companies, sent by post or e-mailed to other companies outside Libya (see appendix 2):

### **4.8.1 Semi-structured Interviews Design and Procedures**

Face-to-face interviews were conducted with key functionaries in the housing sector and functionaries in the General Council of Planning (GCP) in Libya. A semi-structured interview has been designed as shown in appendix 1. It was divided into four parts: the first section is personal details, questions in this section cover age groups, academic qualifications, years of professional experience, job position and its importance. The second section deals with general information regarding the housing problem, including the length of the

problem period, the most important characteristics of the housing problem, state measures to correct, and the degree of success of solving the housing problem. The third section generally considers the private sector. The final section examines foreign direct investment, the need for foreign investment and how to attract foreign investment to invest in housing in Libya.

The face-to-face interview procedure was started by formulating the semi-structured interviews, and presenting it to the supervision committee and further academic staff and colleagues in the School of Built Environment. The semi-structured interview questions were then reformulated. Translating the semi-structured interviews to Arabic language was necessary due to some of the interviewees preferring to be interviewed in Arabic. An expert in translation tested this translation to ensure there is no mistake in the translation.

The next step was to choose the interviewees and contact them to give them information about the research and its purposes. Face-to-face interviews were then conducted with target interviewees. Only one interview a day was conducted with high level functionaries, the interviews with them took a long time, however the actual interview period was limited to not exceed 90 minutes. Middle levels were easier to arrange appointments with, and between two and three interviews, were conducted during a day and the interview period reached a maximum of three hours.

Due to local Libyan culture, voice recording was difficult; therefore, writing their answers was the only possible way to record the interviews. When the interviews were complete, the interviewee read his answers to ensure that the answers were exact. Translation of answers into English has been done and revised by an expert. The interview questions have been classified into two categories. Firstly, questions, which were close ended, where quantitative methods could be used in analysis. Secondly, open ended questions where qualitative methods could be used.

#### **4.8.2. Interview List**

Interviews have been conducted with 23 interviewees in different positions, levels and different cities in Libya. Cities covered by interviews are; Tripoli,

Benghazi, Al-Marj, Aljabl Alakhder, Albtan. This sample represents various levels of sizes of cities, and has been selected because the housing shortage problem is more evident in these particular cities. The persons interviewed were as follows:

- 1- General Auditor of Housing (Minister Position).
- 2- Under Secretary of General Council of Planning (GCP).
- 3- Under Secretary of General People's Committee of Planning (GPCP).
- 4- General Secretaries of General Councils of Planning in various Shabiat (administrative areas) (GCPS). (N=3)
- 5- Managers of Urban Planning in various Shabiat (UPS). (N=3)
- 6- Secretary of General People's Committee of Housing and Utilities in various Shabiat (GPCHUS). (N=3)
- 7- Head of Department of Loaning in Commercial Banks (DLCB). (N=3)
- 8- Head of Department of Loaning in Saving and Real Estate Investment Bank (DLSREIB). (N=1)
- 9- Responsible Engineers in housing projects in various Shabiat. (N=2)
- 10-Secretary of Basic People's Congress in various districts. (N=2)
- 11-Secretary of People's Committee of Housing and Utilities in Basic People's Congress in various districts. (N=3)

#### **4.8.3 Foreign Investors Questionnaire Design and Procedures**

The questionnaire has been designed to determine the opinions of foreign investors. The questions explore the foreign companies' experience in housing construction and their dealings with Libyan institutions (private and official).

The answers for these questions were intended to shed light on the competition, the costs of housing construction, and whether they are interested in partnership possibilities.

The procedures to deal with questionnaires started by the design the questionnaire. This was then pilot tested. The purpose of the pilot test was to refine the questionnaire, and ensure that the respondents faced no problems in answering the questions, and that there would be no difficulties in capturing the



needed data. In addition, it allowed assessment of each question's validity, reliability and enabled investigative questions to be answered for preliminary analysis (Saunders et al, 2003). Generally, there are three major phases, which can be distinguished, which are question development, questionnaire development and polishing pre-test (Bishop and Heberlein, 1990; DeVaus, 2002).

The next step was transmitting the questionnaires to foreign companies, which had worked in Libya and to companies in the UK, Spain and Egypt who had not previously worked in Libya.

#### **4.8.4. Difficulties Faced in Collection**

The main problems of data collection have been:

- The greatest problem faced in collecting data lay in interviewing high level functionaries because of the limitations of their time;
- Some of functionaries in lower levels are not convinced to deal with the interview seriously because they think these interviews can not change the current situation;
- Questionnaires sent to most of the construction companies out with of Libya did not reply and others took a long time to return their answers.

The researcher took some procedures to ameliorate the difficulties. For example, according to the importance of social relations in Libyan society the researcher benefited from the contacts made before the start of the PhD study (being a Dean of the Economic Faculty at Omar Al Mukhtar University and a member of the General Council of Planning in Al-Btnan area). The researcher's brothers' contacts also helped (from his position as a member of General People's Congress "parliament") in arranging meetings with some of the high level functionaries and offering accommodation in distant cities and coordinating transportation. So these problems have been reduced.

#### **4.8.5. Delivery and Collecting Data**

Data collection started in May 2004, with a survey of the literature related to foreign direct investment theories. This survey also examined Libyan legislation and official documents collected during the study.

In addition, 23 interviews were made in different cities with officials of different levels to achieve a balanced sample.

Concerning the questionnaire; the response rate was slow, only 6 companies returned completed questionnaires from the 30 companies who were handed the questionnaire for companies working in Libya. Pertaining to companies outside of Libya 9 out of the 50 companies from Egypt, Spain and UK have returned the completed questionnaire. There has been no reply from any UK company.

According to research requirements; to support the argument by the experience of the companies that work abroad in the construction and housing building field; the questionnaire was designed to obtain an understanding of foreign investors' opinion and attitudes. Despite the e-mails and post letters prompts being sent to more than 70 companies in different countries such as Turkey, Egypt, Italy, the UK, the response was still poor. Therefore, assistance was required by an e-mail sent to Peter Cain (Export Manager - Americas, Africa, South Asia, Non-EU Europe, and Russia Construction Unit - UK Trade & Investment) to provide a list of UK companies. Kindly he sent a data base website, and the questionnaires were prepared to re-send them by post. The responses were 9 of 30 questionnaires, whereas the handed responses questionnaires from Libya were 6.

The replies of interviews and questionnaires received have been preliminarily classified as a first step to analysis. Then analysis programmes such as Excel and Nvivo was used to analyze the data.

## **4.9. DATA ANALYSIS**

Data collected from the semi-structured interviews and questionnaires have been analysed to obtain the findings, which will be used in the discussion in the next chapter.

Close-ended questions has been analysed by using Excel software, where quantitative methods have been adopted to analyse these questions in a straightforward way, a percentage being calculated for every question to determine the power of the answer for the question.

In Open questions qualitative methods have been adopted to deal with analyse, Nvivo and classical matrix analysis has been applied to the questions to reach the findings.

Therefore, as a result of the analysis procedures, the findings from the data analysis will be employed with the other sources that have been obtained during the data collection and according to the research methodology.

## **4.10. SUMMARY**

The research methodology has been classified according to: the purpose of research which means the purpose for the conduct of the research; and also by the process of the research which means the way in which data will be collected.

The type of research has been classified according to the logic of the research that refers to whether the research is moving from the general to the specific or vice versa, and finally by the type of outcome of the research that refers to whether the research is trying to solve a particular problem or make a general contribution to knowledge.

Different types of research are based on different conceptions of the nature of science. This research is based on identifying the problems of FDI in the housing sector in Libya as an initial step to achieve the main aims of the research that is: to what extent can Libya attract FDI to invest and what are the



appropriate procedures to attract this FDI, which can help to overcome Libyan housing problems.

The research therefore, will provide a proposal for a framework, which will address the housing problems and potential solutions in order to attract FDI.

This chapter has sought to establish a sound justification of the chosen research methodology and approach. In particular, it has attempted to explain the background of the overall qualitative methodology and its relevance to the context of this study in terms of the replication logic and the generalisation issue of the case study approach. This chapter formed the basis for establishing the actual data collection protocol activity and procedures that have been used.

Chapter 5 will present the findings from collected data from work field, and discuss the findings in comparison with the other sources of data such as literature review and documentary survey. Triangulation methods have been adopted in the discussion, which will give the study more depth, and that lead to produce satisfactory recommendations.

## **CHAPTER FIVE**

### **FINDINGS AND DISCUSSION**



## 5.1. INTRODUCTION

This chapter aims to present the findings that were obtained from the analysis of the fieldwork data, and compare and contrast these findings with the literature survey in a triangulation approach.

For reliability and validity purposes, to gain access to the truth and achieve accuracy in the information used in the research, qualified and knowledgeable persons on the subject of the research were selected for interview. The personal data reflects this.

## 5.2. ACCURACY OF DATA

To ensure that the data collected from the semi-structured interviews is accurate and has the attributes of validity and credibility, the interviewees chosen all have knowledge and experience in housing. 70 % of the interviewees are in the age group between 31 and 50 years, (26% in the age group between 31 and 40 years and 44% in the age group between 41 and 50 years) as illustrated in figure 5.1, This age bracket is closer to the problem because this age group generally bears the responsibility for providing housing for families according to the habits and traditions of Libyan society.

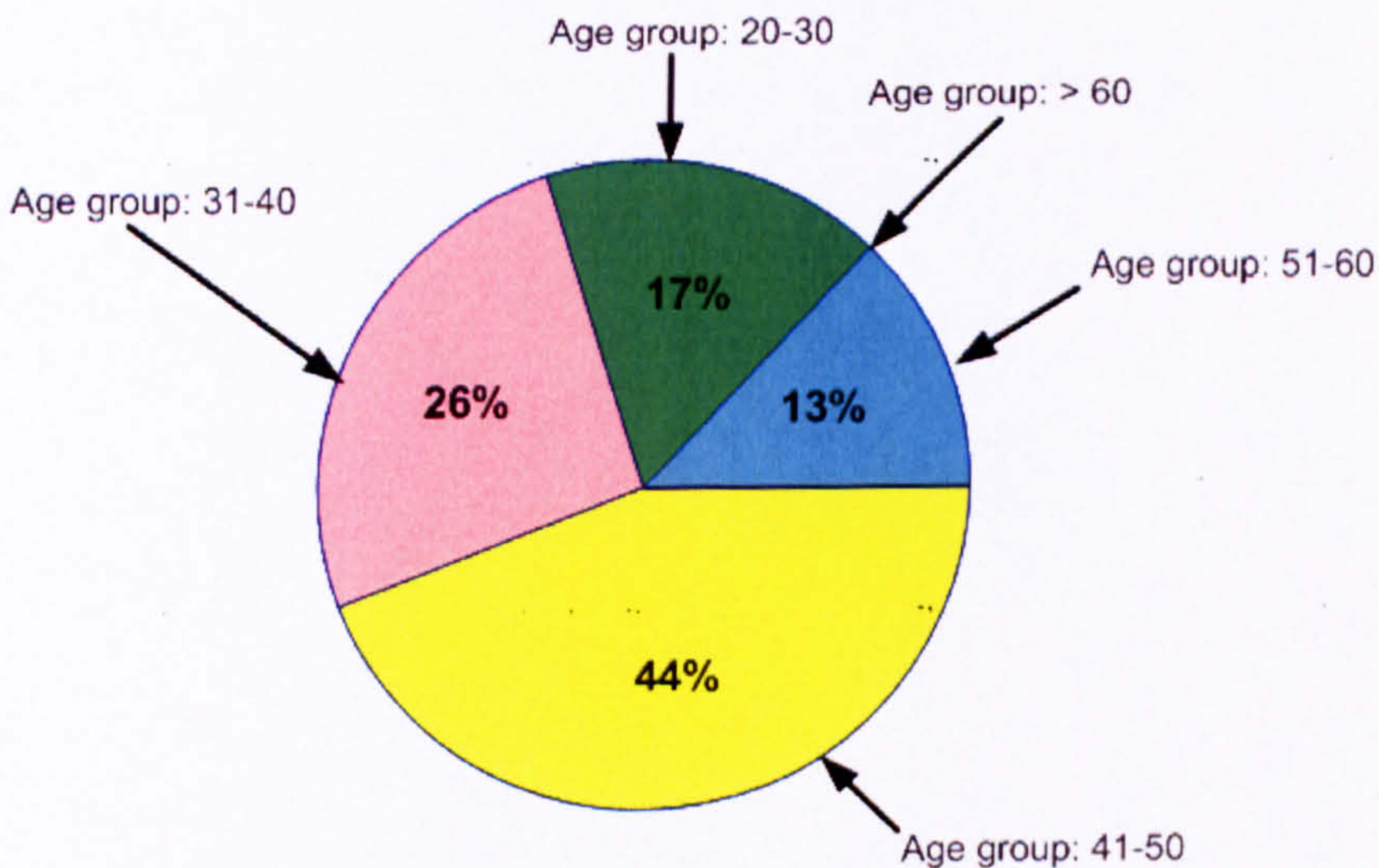
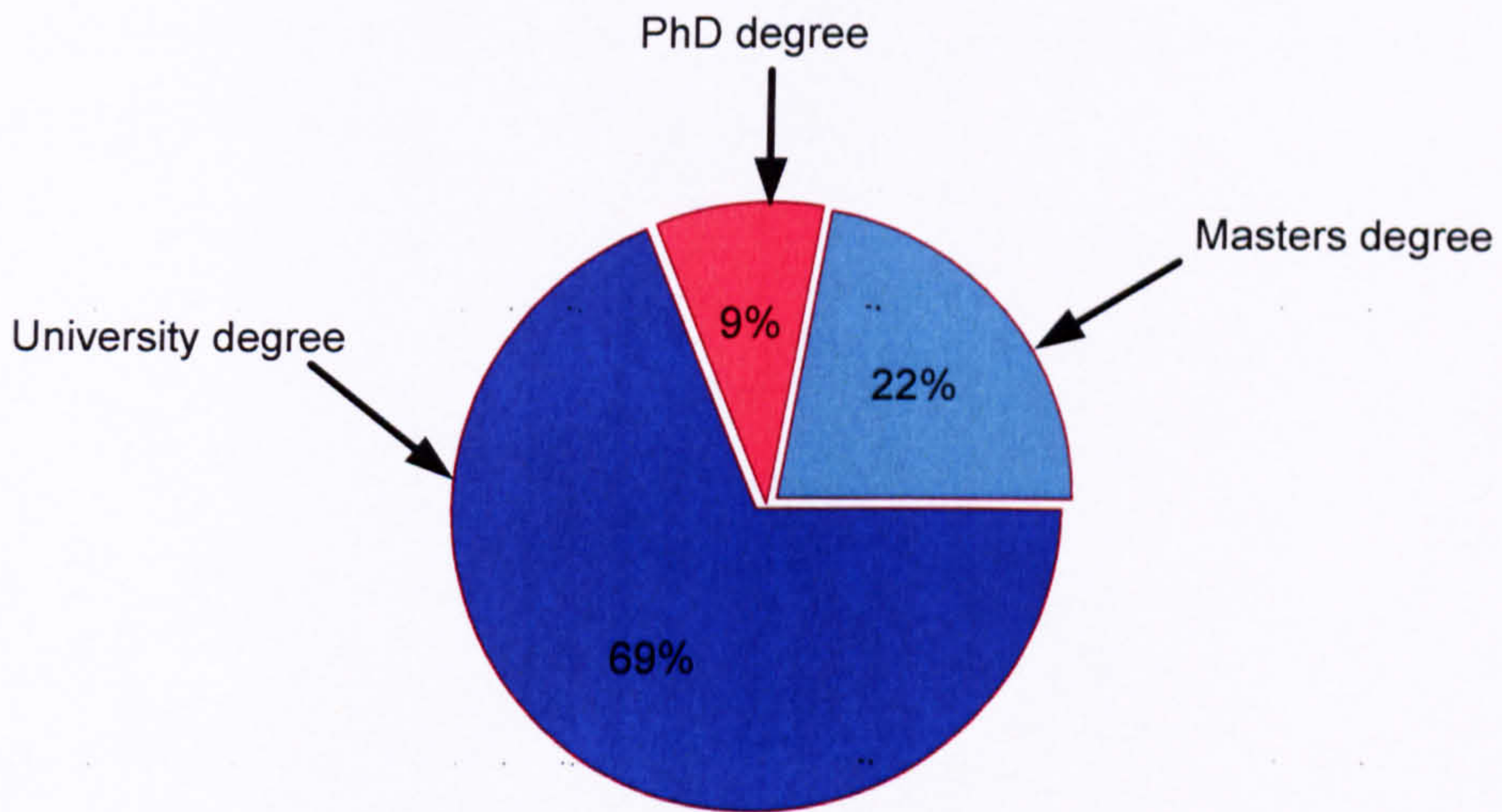


Figure 5.1: distributions of age groups

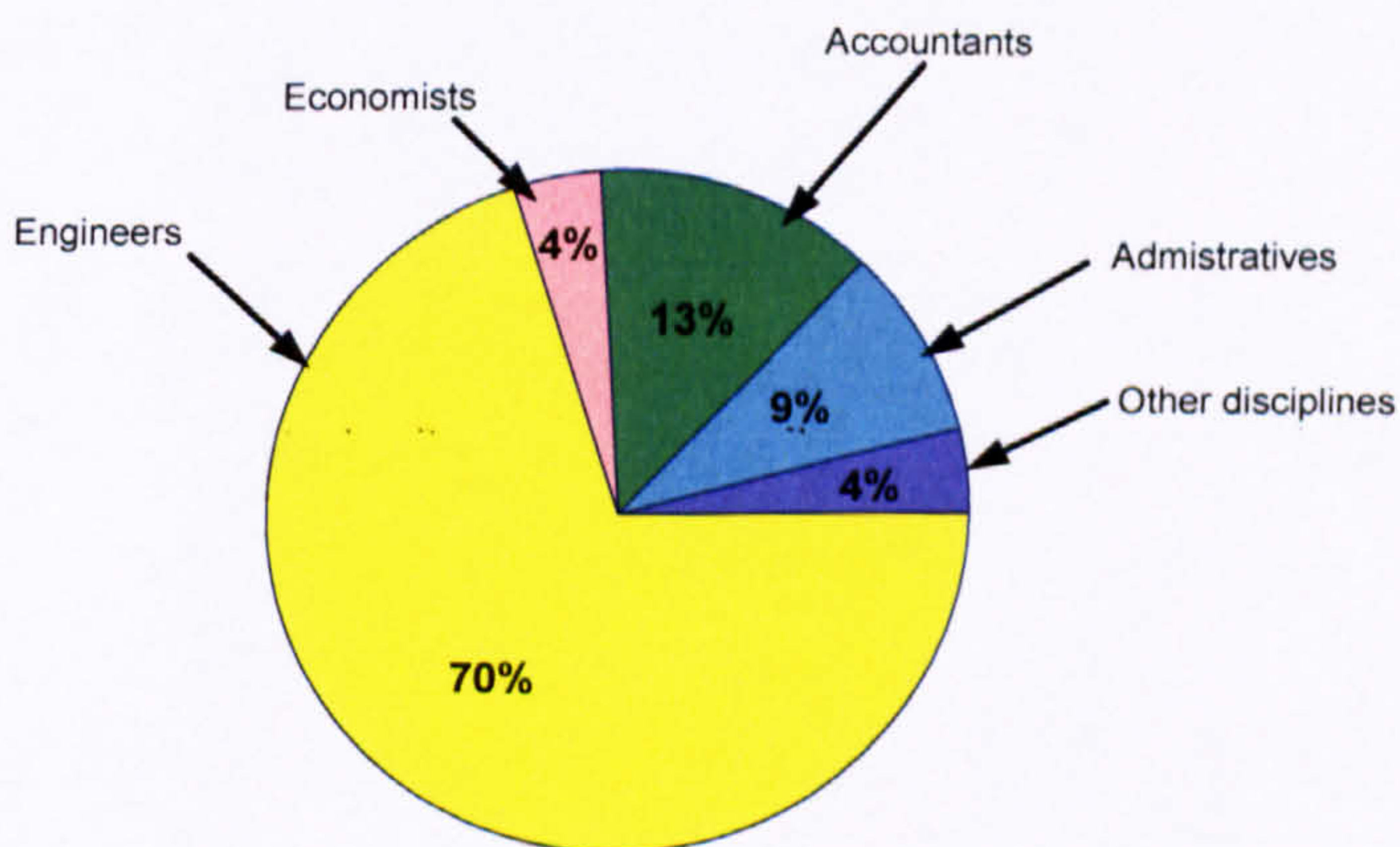


Moreover, figure 5.2 represents the interviewees' qualifications: 69% had a first university degree; 22% hold a masters degree and 9% hold a PhD degree. These levels of qualifications reflect that they are likely to understand the issues related to the research objectives.



**Figure 5.2: interviewees' qualification**

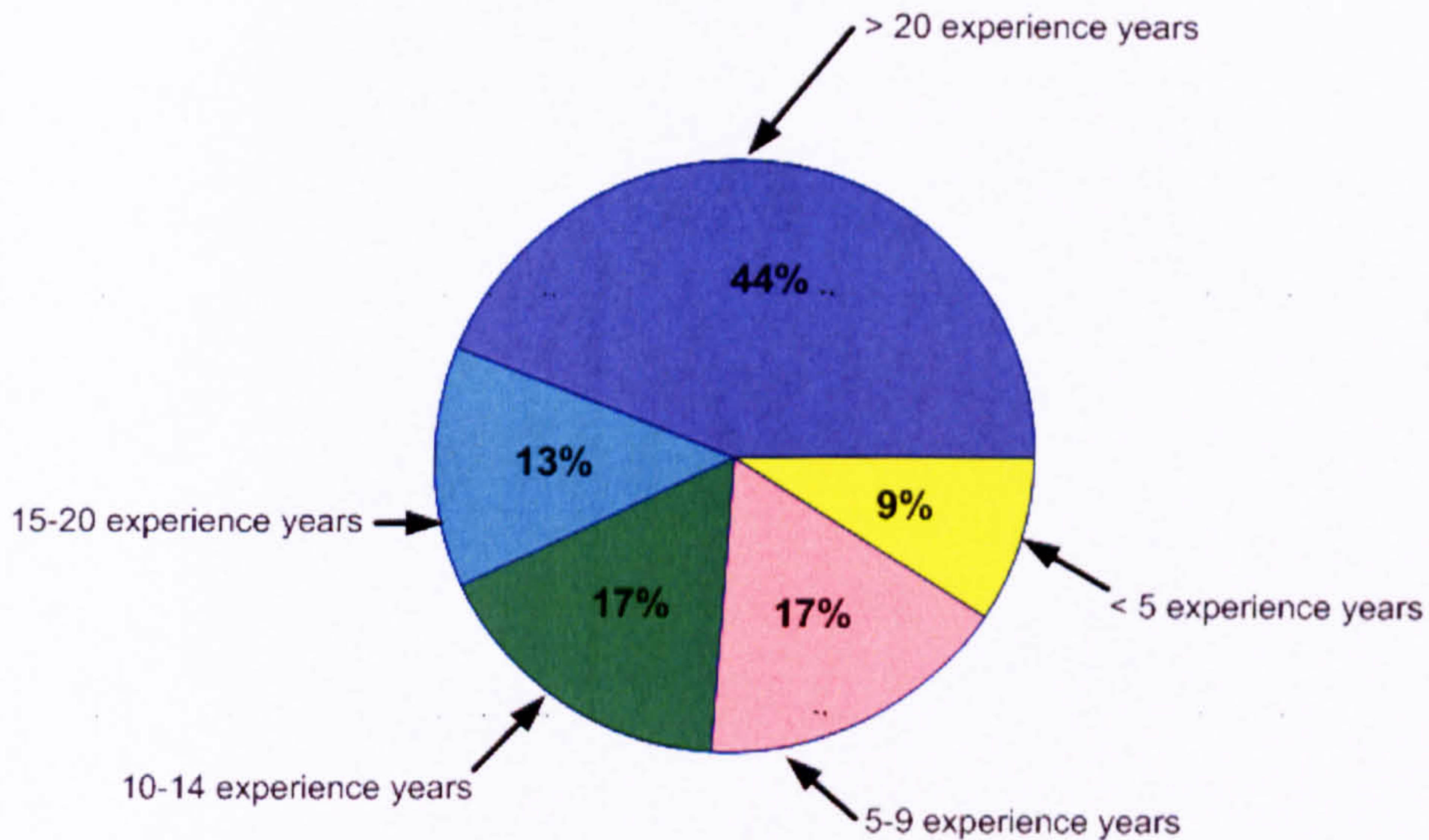
In addition, the interviewees are mostly specialists in disciplines relevant to the construction sector. Figure 5.3 illustrates that: 70% are engineers, 4% economists; 13% accountants; 9% administrative; and 4% other disciplines.



**Figure 5.3: interviewees' profession**



The number of years of experience reflects to what extent the interviewees know about the housing problem and the history and its background. Figure 5.4 reflect that: 44% of interviewees have more than 20 years of experience in this sector; 13% have between 15 and 20 years of experience; 17% have experience between 10 and 14 years; 17% have experience between 5 and 9 years; and 9% have less than 5 years experience.



**Figure 5.4: interviewees' experience**

It should be noted that all the people who were interviewed were in positions of leadership in the legislative and executive organs of government as set out in Section 4.8.2 of the research methodology chapter.

### 5.3. Background of Housing Shortage in Libya

Libyan society has adopted mixed concepts for housing. While housing is considered as a consumption commodity for the whole society according to a temperate trend, at the same time housing has also been considered as an essential commodity and as fixed commodity according to Marxist Trends as mentioned in chapter 2.



During the period of the 1960s and the early 1970s, the Libyan government adopted successful policies in housing as mentioned in section 3.4 in chapter 3, such as: Public Housing Policy; Personal Capability Policy; Improvement and Upgrading Policy; Sites and Services Policies; and Core Housing Policy in some areas in Benghazi and Al-Marj. Despite the government attempts, the demand remained higher than supply in the housing market due to the economic growth in the coastal cities in particular, Legislation law (4) in 1978 decreased this supply, although the effects appeared later.

The shortage in housing in Libya that had started became clearly more notable for most of society. 96% of the interviewees agreed that there had been a severe a shortage in housing for about 20 years. In addition, a report of the General Council of Planning (GCP) presented to the General People's Congress (GPC) meeting in 2002 highlighted the housing shortage in Libya. Moreover, Dr. Ghanem, the Secretary of General People's Committee (SGPC) (Prime Minister) mentioned the shortage in housing in his speech to the General People's Congress (GPC) meeting in 2004 and in a TV interview on Jamahiriya TV in 2006. He estimated the shortage in housing as about 450,000 units in 2002.

The characteristics of the housing crisis that accompanied the problem are most important. The difficulty of obtaining housing for new families was identified by the interviewees (73%). In addition, the Basic People's Congresses (BPG) have placed the problem of the shortage of housing at the top of its priorities since the emergence of the problem at the beginning of 1980s, until now. When reviewing agenda items since 1980 not a single agenda failed to mention this problem. The Basic People's Congresses (BPG) strongly recommend providing these new families with housing at all of their meetings.

Another characteristic has appeared and it is new to the Libyan society. That is, the sale-leasing contract. This characteristic has been imported from Egypt, and means the original inhabitant takes an amount of money before leaving the dwelling for the new inhabitant. This characteristic is one of the notable observations and has been observed by 77% of interviewees.



From the observations, it should be noted that there are major shortage in construction materials in particular in cement and reinforcement. Consequently, a black market appeared and the price rapidly increased. For instance the price of cement changed from 37 L.D/ ton to 170 L.D/ton, and the price of reinforcement changed from 130 L.D/ ton to 650 L.D/ton. 59% of the sample reported that the shortages of construction materials are a characteristic of the shortage in housing. In addition, the General Council for Planning (GCP) in its project for housing policy and urban development confirmed that the shortages of construction materials are characteristic of the shortage in housing. Moreover, Porter and Yergin (2006) repeated the report of shortages of construction materials in the housing sector in Libya.

The Secretary of (GCP) mentioned the random construction phenomena and building shacks as a characteristic of the shortage in housing in 2002. In addition, the majority of interviewees (77%) agreed, and the observations provided evidence that the random construction has spread in most city suburbs.

Due to centralised plans, local urban planning stopped from 1985. Moreover, despite the small ratio of interviewees (18%) mentioning the lack of urban plans, the Under Secretary of the General Council of Planning (GCP), confirmed that there had been no urban plans after 1980. This lack of urban plans led to increases in lands prices, consequently, leading to real estate price increases.

It is worth noting that the housing shortage causes negative social effects such as: increased divorce rates; decreases in marriage rates; high occupancy rates in housing units; more than one family occupying one housing unit. These negative social effects have been mentioned by 45% of interviewees.

#### **5.4. REASONS OF THE SHORTAGE**

Libya has faced difficult circumstances in the last three decades that caused many economic and social problems the wider economic and social problems have been excluded from this thesis; however, the housing crisis is linked to

these problems. According to the research, there are a number of reasons behind this housing shortage, some of them are internal and others are external.

#### **5.4.1. Internal Reasons:**

Through exhaustive study it has been found that internal causes fall under a variety of headings: such as: adopting overambitious targets; administrative system instability; population increases; local contractors' experience inadequacy; establishment legislation that prevents leasing; decrease in financial resources; vacillating public targets; lack of adequacy in urban planning; changes in the residential behaviour of the population.

##### **5.4.1.1 Adopting Overambitious Targets**

As a result of abundant oil revenues, Libya was released from its debts and started to be self sufficient, so it became able to start developmental projects in various economic fields. Thereby an enormous amount of money has been allocated for development plans, in particular, in the housing sector. Table 5.1 illustrates the allocated amounts compared with actual expenditure amounts in these development plans in the housing sector in the period 1970 - 1996.

One can recognise that there was a rapid increase in the allocated amount in development plans in the housing sector in the period 1970 - 1981; in addition to that, the actual expenditure was more than the allocated amount in some years. For example, the actual expenditure to allocated amount ratio was 114.3% in 1970 and 102.2% in 1981.

Allocated amounts for the housing development plans started decreasing from 1982 when Libya cut back expenditure after the USA sanctions in 1982 because of the Lockerbie incident. Whereas allocated amounts decreased, to arrive at 91.8 million Libyan Dinars in 1989, the actual expenditure also dropped. For instance, it was 41.4% in 1987. After that, the decrease in allocated amounts for housing has continued. 70 million Libyan Dinars was fixed in 1994, and the real expenditure percentage was only 18%. A sharp



decrease occurred in 1995 and 1996 where the allocated funds were only 3 million LD and 8 million LD respectively.

Since 1982, the actual expenditure has started to decline irregularly. The actual expenditure ratio also dropped to 17.1% in 1991 and 18% in 1994, this decrease in actual expenditure indicates that the main difficulties are in housing project development plans rather than the authorities' financial ability.

**Table 5.1: Allotted amount and Actual expenditure in development plans in housing sector in the period 1970 – 1996**

Year	Allotted amount (AA) LD Units	Actual expenditure (AE) LD Units	% AE to AA
1970	32.8	37.5	114.3%
1971	39.9	39.4	98.7%
1972	72.9	72.2	99.0%
1973	76.9	60.9	79.1%
1974	148.2	146.9	99.1%
1975	142.7	128.3	89.9%
1976	150.5	138.3	91.8%
1977	185.0	175.1	94.6%
1978	231.0	152.7	66.1%
1979	166.0	167.8	101.0%
1980	231.7	224.0	96.6%
1981	288.2	294.6	102.2%
1982	245.6	237.0	96.4%
1983	217.6	221.3	101.7%
1984	208.2	184.0	88.3%
1985	168.6	143.6	85.1%
1986	167.5	126.6	75.5%
1987	142.0	58.8	41.4%
1988	138.8	77.3	55.6%
1989	91.8	97.6	106.3%
1990	100.0	86.9	86.9%
1991	289.7	49.8	17.1%
1992	70.0	19.1	27.2%
1993	-	-	-
1994	70.0	12.6	18.0%
1995	3.0	14.7	490%
1996	8.0	42.6	532.5%
Total 70 - 96	3,686.6	3,009.6	81.6%

Source: General People's Secretariat of Planning, Economic, and commerce (1997), The National Accounts 1980 – 1996, PP 21 – 28.

It is worth noting that the shortage in housing is as a result of accumulations of previous plans. The targets contained in these plans were bigger than the states capability. The execution ratio in housing was 60% in the five year plans for 1970 – 1975 and 1976 – 1980, and it was 67% in the plan for 1981 – 1985. Then, development plans in housing stopped; as mentioned in the General People's Committee for Planning, Economic, and Trade study entitled "Evaluation of Housing Policies in Jamahiriya in 1997. What is more, the General Housing Board Report clarified that 12,000 housing units were not completed from the period 1979 – 1985. Furthermore, 73% of the interview sample affirmed that they consider the inability to complete the plans targets and a decrease of the execution implementation ratio important reasons for the housing shortage.

#### **5.4.1.2 Administrative System Instability**

From the 2nd of March 1977 Libya adopted a socialism regime, which resulted in a lot of changes in the Libyan government administration. Both the high level (decisions makers) and low level (decisions implementers) have been changed several times, often in convergent periods. Mergers of some of the General Peoples' Committees (Ministries) occurred some times, even the abolition at other times. According to the new regime the General Peoples' Committee for Housing was established on it 2nd March 1977, subsequently it merged with the General Peoples' Committee for Utilities named the General Peoples' Committee for Housing and Utilities on the 3rd March 1982. The next change was the abolition of the General Peoples' Committee for Housing on the 7th October 1990. The General Peoples' Committee for Housing was re-established on the 29th January 1996. Once again the General Peoples' Committee for Housing was abolished and it became a subordinate of the Assistant Secretary for Services Affairs, under the General Peoples' Committee in 2001. It then became an independent administration headed by the General Auditor, which is a subordinate of the General Peoples' Committee, in 2002 (General Peoples' Committee, 2005). On the other hand, changes at lower levels are more rapid than at high levels. Some times changes happen every year or less. 83% of



interviewees confirmed that administrative instability caused worsening of the housing shortage.

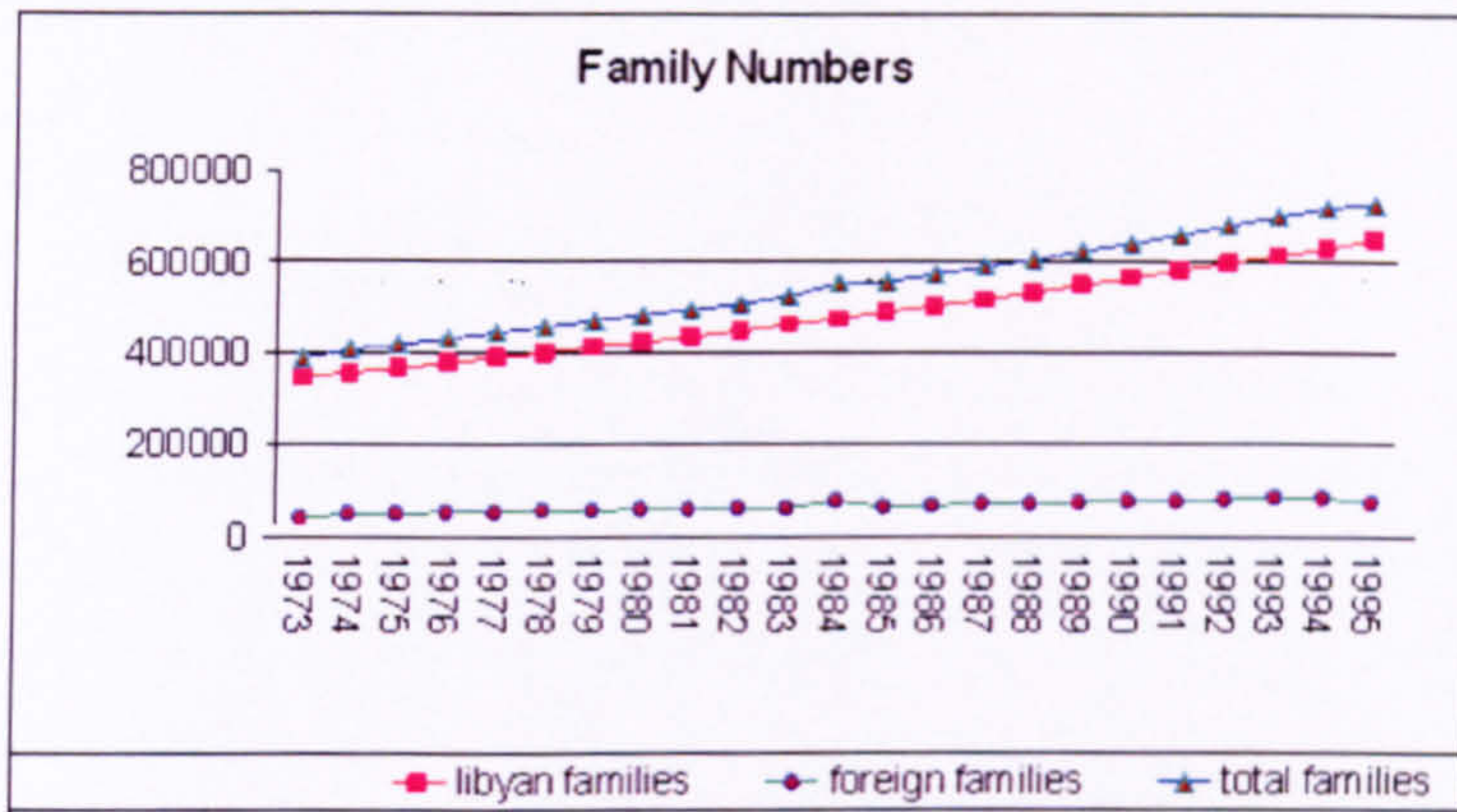
The merger and separation of provinces (administrative districts) was one of the other significant causes which resulted in administrative instability. As a result of this instability, national and local public housing projects contracts became confused. At the same time contractors could not carry out their commitments and were undermined in their rights, which made them unable to accomplish their contractual commitments. Administrative instability has been considered as one of the most significant causes, which led to the decline in development levels in the Libyan economy (Al-Megharbi, 1993)

Generally, it can be said, that many of the changes in administrative organisations and the administrative instability were a real cause for unsuccessful development plans in whole sectors of the Libyan economy, including housing.

#### **5.4.1.3 Population Increases**

After the oil heyday, the Libya population has seen high growth levels. It reached 4.3% in 1972 (Lahmeyer, 2003). As shown in Figure 5.1 the number of families rose from 387,043 families in 1973 to 727,523 families in 1995 (Shamia & Kaebah 1996). In addition, 78% of interviewees affirmed that the increasing population was one of the reasons causing the housing shortage. However, numerous people postponed their marriage plans until acquiring a house. This increase in numbers resulted in an increase in housing demand.





**Figure 5.5: Increases in Family Numbers -1973 -1995**

#### 5.4.1.4 Local Contractors' Experience Inadequacy

Many difficulties occurred with foreign contractors. The most significant cause for the decline of implementation levels was that the government did not complete its contractual commitment with contractors in arguments about hard currency payments, and delays in payments instalments (General Board for Housing, 2003). In addition, 67% of interviewees agreed that the government non-commitment to their contracts led to an inability to complete housing projects.

As a consequence many foreign contractors left Libya. Those that stayed received a smaller share of the available contracts.

The Libyan policy trend in housing adopted since the 1990s has been to encourage contracting with local Libyan contractors. In executing and sometimes investing in the Libyan housing sector, it became apparent that most of the local contractors suffered experience weaknesses in executing large scale housing projects. 68% of interviewees confirmed this as a problem supported by the General Board for Housing (2003). As a result of the deterioration of the contracting apparatus and in spite of attempts to re-organise many times it became even harder to satisfy the stringent demand in this sector. Absence of local qualified labour and skilled labour in the construction sector



led to near total dependence on foreign companies and labour (General Council of Planning, 2002).

#### **5.4.1.5 Establishment Legislation That Prevents Leasing**

Libya adopted a socialism regime which rejected ownership for leasing purposes. "the house is a basic need of both the individual and the family. Therefore, it should not be owned by others." (Al Qathafi, 1975:53). As a consequence legislation that prevents leasing has been established. One of most important laws is Act no: 4, 1978, which prevented leases. As a result, these laws prevented activities for profit and stopped rental housing and prevented the private sector building houses for lease purposes.

The General People's Committee for Planning, Economics, and Trade study (1997) pointed to a lack of private sector participation in the housing sector. Moreover, 88% of the interview sample confirms that the legislation that prevented leasing was an important reason for the housing shortage

#### **5.4.1.6 Decrease in Financial Resources**

To finance the Libyan housing sector three ways have been adopted.

The first method was, financing by government, where it was a part of the planning budget allocations. This was the predominant form especially in the early years, because of ample oil revenue, and the government's desire to reform the internal situations. Therefore, the Libyan government adopted public housing policy as one of the policies that has been adopted as mentioned previously in chapter three. However, because of the oil price drop from \$35.69/barrel in 1981 to \$11.21/barrel in 1998 (BP, 2005), in addition to other political issues which caused a decline in exported oil quantities and therefore revenues, this affected the development budget negatively, and led to a decrease in the financing ability.

The next form of financing was by loans and mortgages from commercial banks which in effect encouraged lending as the implication of personal capabilities policy as mentioned in chapter three. But it suffered procedural complications,

(Porter, 2006, ranked Libya 98 out of 100 countries that have difficulties in banking procedures) and restrictive laws, hence it became inefficient.

The third method was dependent on individual savings from the people to implement the personal capabilities policy as mentioned previously. 51% of the Libyan workforce is government employees as cited in the Porter report (2006), while Dr. Ghanem the Secretary of General People's Committee (SGPC) (Prime Minister), (2004) illustrates in his speech that the percentage of government employees is more than 70% of the formal workforce. 400,000 of 800,000 government employees are in public education. Whereas, 8% - 10% is an acceptable percentage of the workforce to employ in the public sector as confirmed in Porter Report. However, the majority of public employees' monthly incomes are low, where 95.7% of them earn less than 500 LD, and 85% less than 300 LD per month (General Board of Information, 2002:51). These low levels of income are insufficient for even essential goods. When matched by equally poor income levels in the private sector, there is little left for saving and investment. (For comparison with incomes levels in the UK, £1 = 2.367 LD (Central Bank of Libya, 2005)).

The governor of the Central Bank of Libya' in a letter dated 30.11.1994 to the Secretary of General People's Committee requested an extension to the period for 60,000 units from three years to five years due to financial difficulties. This letter is evidence of the lack of financial resources in the housing sector. Furthermore, 58% of the interviewees said Government financial difficulties were one of causes of the shortages in the housing sector.

#### **5.4.1.7 Vacillating Public Targets**

The crucial feature at the beginning of the period 1970 - 1995 was the government's total service provision to all people. These services included housing. Therefore, huge amounts of the development budget have been allocated to the housing sector. As a result of economic and political events in the first half of the 1980s this led to the previously noted decrease in devoted amounts for the housing sector, which consequently resulted in changing targets and priorities.



The Evaluation Of Housing Policies in the Jamahiriya study by the General People's Committee for Planning, Economics, and Trade (1997), advocated stopping development plans for housing from 1985, and then allocating finance annually to complete previous targets. In addition, 57% of the sample interviewees said the vacillation of targets in the different periods caused the neglect of housing as a priority.

From another angle, the political problems that Libya had been involved in, led to the expenditure of reparation money to rectify old mistakes. Libya paid \$2.7 Billion to the USA and UK to resolve the Lockerbie issue.

#### **5.4.1.8 Lack of Adequacy in Urban Planning**

A study on housing policies prepared by the General Council for Planning Act No: (23) for 2002, identified the cause of housing shortage as the lack of contemporary urban planning. The current plans ended in 2000 (General Council for Planning, 2002), yet, the efforts to prepare new urban plans still suffer from a lot of complications. Hence, land prices have increased rapidly and sharply. Furthermore, 78% of the interviewees affirmed (and in particular 100% of Managers of Urban Planning in the Shabiat) that a lack of urban plans has contributed significantly to the shortage problem in housing.

#### **5.4.1.9 Changes in the Residential Behaviour of the Population**

In the period before oil was discovered at the end of the 1950s, most Libyans dwelt in either troglodyte dwellings, cottages or tents. In the period 1960 - 1970 mass migration to the cities occurred with people looking for better jobs due to the oil boom. This period was characterised by the appearance of inhabitant gatherings in shanty towns on the cities outskirts. Most dwellings were typically occupied by two or more families as cited by the census of 1964. Most families resided in rented dwellings.

However, since 1970, housing behaviour for inhabitants has changed. Families stopped sharing houses as a result of the initial housing sector boom. Libyans were also affected by new cultures and trends, and as a result of this,

consumption behaviour was affected. Housing expectations had been permanently changed; this led inexorably to the increase in demand on housing. This increase through time brought about a shortage in housing which was not accompanied by a sufficient increase in supply.

#### **5.4.2 External Reasons**

These reasons could be divided into: economic sanction effects; foreign companies boycott; and decrease in oil revenues.

##### **5.4.2.1 Economic Sanction Effects**

Libya has faced sanctions because of political issues; the USA hurried to impose sanctions on Libya in 1982, and continues; (despite the attempts of US business groups, led by oil companies that hold concessions in Libya to persuade the US administration to ease a trade ban that was imposed on Libya in 1986). The UN Security Council imposed sanctions on Libya in 1992 to press Tripoli to hand over two suspects wanted for the 1988 bombing of a US Pan American Airways airliner over Lockerbie, Scotland.

These sanctions put Libya in severe circumstances, and this led to economic shrinkage in all economic sectors and a development recession. This harmful economic situation affected the housing sector, similar to the rest of economy. 76% of interviewees saw the sanctions as having a crucial effect on the housing sector and it was one of reasons cited for shortages in housing in both direct and indirect ways.

##### **5.4.2.2 Foreign Companies Boycott**

Many foreign companies boycotted Libya, in obedience to the UN decision No: 748 for 1992 and decision No: 883 for 1993 which put Libya under sanctions. The departure of these companies led to stops and delays in many projects in which the housing sector has been affected. Lack of hard currency and payment delays also led to the withdrawal of many other multinational companies; as a result completion dates were delayed extensively (Benkrima, 2001; El-hasia, 2005). For instance, according to the decision of the Secretary



of General People's Committee of Housing and Utilities No: 191 for 2000, seventeen companies withdrew from housing projects by mutual agreement most of them Turkish companies (General Board for Housing, 2003: 43-46).

#### **5.4.2.3 Decrease in Oil Revenues**

The effects of the decrease of oil revenues started appearing after the USA administration imposed sanctions on Libya in 1982. US companies stopped dealing with the Libyan oil sector in particular. As a consequence, the cost of production in the oil sector increased and oil revenues declined (Alavi, 2003). The UN decisions in the early 1990s made the situation worse; additionally oil prices fluctuation participated in creating instability in the economy and made the establishment of development plans more difficult. Based upon the disturbances that dominated the oil sector, this was transmitted to all economic sectors including the housing sector.

#### **5.4.3. State Initiatives to cover the Shortage in Housing**

It can be said that the governments' role in the housing sector in Libya, continued playing a significant role as a bailieman, from the beginning of the study period in 1970 until 1995 despite the bottlenecks in the 1980s. In this, period the government built houses and allocated them to people. The government assumed control of the planning process and the provision of land for construction. However, it cannot continue to play the same role because of its limited financial resources and increased workloads. In addition, government bureaucracy has caused untenable delays in the procedures. It has become clear that the government was unable to do everything itself and that the private sector should be given an opportunity to participate according to the real estate market mechanism. Through the evaluation period of this thesis, policies, which relied entirely on the government for their success was not always accompanied by total government support for these same policies. The outcome was that targets set in most plans were not achieved.

70% of the interviewees identified that the government had played a significant role in solving the housing shortage problem, while 30% of interviewees regarded the results of government intervention as not solving the problem.

Of those interviewees who think the government has played a role to solve the problem, they identified the following as the most important procedures: 68% of the sample confirmed the state encouragement for the commercial banks and Saving and Real Estate Investment Bank (SREIB) through Central Bank of Libya (CBL) to give personal loans for housing particularly in 1970s and early of 1980s. Furthermore, CBL clarified in its Economic bulletin (2004, first quarter: 24) that the housing loans increased gradually in the period 1990 – 2000, whereas housing loans from Saving and Real Estate Investment Bank increased from 26.4 million L.D, to 37.7 million L.D, in 2000, and then increased rapidly from 75.5 million L.D in 2001 to 511.6 million L.D in 2003. But the maximum amount of individual loans was not enough for total construction cost. Whereas the maximum amount was 15,000 L.D, while the actual cost for a typical house was more than 40,000 L.D. The General People's Committee decisions No 393 in 1999 and No 30 in 2000 increased the maximum personal loan to 30,000 LD, but this is still insufficient. Moreover, Libya ranked 98 out of 100 in ease of loan procedures as cited by Porter and Yergin (2006).

In addition, the government established 60,000 housing unit projects in a three year plan 1996 – 1998. This period was then extended to five year 1996 – 2000. (The General Housing Board Report (2002)). 63% of interviewees pointed to the project as evidence of government activity.

Nevertheless, this project has been faltering, only 2840 units had been completed by 2004. This report identified financial difficulties as the cause. 210 million L.D, have been allocated for the project annually for the first three years, but the amount provided has only been 67 million L.D.

Furthermore, new legislation and decisions have been established to encourage local companies to participate, and have made procedures easier for new companies. 46 local public companies and contribution companies have been



assigned the task to implement the project of 60,000 housing units. (General Housing Board Report, 2002). Due to the low efficiency of these companies and their lack of experience there was a minimal level of implementation.

The interviewees clarified that the success rate of the state in resolving the problem was low. 50% of them believed that the success rate is less than 20%, while 40% said the percentage of success are less than 40%.

#### **5.4.4. The reasons that hindered solving the housing problem**

The most important reasons for the failure of housing shortage solutions have been obtained from the documentation as secondary data. The interviews' answers as primary data are: Legislative reasons; administrative reasons; political reasons; and economic reasons.

##### **5.4.4.1. Legislative Reasons**

After a comprehensive survey of Libyan laws, concerning the housing sector, one can notice that Libya adopted socialism as an eco-political regime and started establishing a number of laws that prevented private sector activities. More than 70% of the respondents indicated the most important acts that led to failure were law No (4) 1987, that prevented ownership of more than one house for the family. This law still applied, until law No (11) 1992 established to give the right for some categories of people to own more than one house. Moreover, it gave some institutions and companies' the right to build houses for rent as investment projects. In addition, there was a lack of conveyancing law applicable to society developments in ownership and lease issues. Moreover, there was an absence of laws that guaranteed banks return on loans by legal distraining.

The severe tenor of these laws was to prevent the private sector from contributing to solve the problem of housing shortages. New legislation established later, gave the right to own dwellings for leasing, such as law No (11) 1992, law No (14) 1995, and law No (21) 1998, which now encourage the private sector to construct dwellings for sale and lease.

#### **5.4.4.2. Administrative Reasons**

Administration procedures play a crucial role in the development issue in all economic activities. The absence of efficient administration led to a waste of time and resources without achieving targets.

Through a survey of the General People's Congress, it was evident that the administration instability was one of the failure reasons. 63% of the interviewees' answers confirm that the administration problems led to unsuccessful solutions. The rapid changing of the responsible officers led to ignorance of the previous procedures, and the starting of new ones. Therefore, lots of money and time were wasted. Moreover, 52% of respondents think that choosing responsible officers in the councils directly by elections were not efficient. The short period in office was another reason. Furthermore, 83% of the sample affirmed the absence of action to respond to a problem at the beginning and failure to analyse it systematically. This led the problem to grow to a crisis level.

#### **5.4.4.3. Political Reasons**

Adopting a socialist regime in Libya as a political system led to a decline in the private sector and reduced individual initiatives and personal aspirations. These political attitudes affected all the economy. Consequently, the failure in terms of the effectiveness of solutions. 78% of interviewees said that: the changing administrative system in the governmental institutions as a result of political decisions caused confusion in decision implementation. 66% of them saw that political decisions to repudiate finance obligations had affected the dedicated amounts for development plans. 59% of interviewees responded that a delay to solve the external political problems that Libya was implicated in, led to further housing difficulties.

#### **5.4.4.4. Economic Reasons**

Economic reasons occupied the first rank in the authorities' failed attempts to solve the shortage in housing:



More than 87% of interviewees confirmed that, the dependence on unqualified local efforts to solve the housing problem was the crucial reason for failure. The authorities gave great opportunities to local companies to implement 60,000 units, unfortunately, these local companies abused this chance to benefit from differences in the exchange market, where variations between the official market price, and the black market price was large. In addition, 72% of interviewees stated that one of the significant reasons was financial policies that depended on personal savings. This was without knowing the public's ability to offer sufficient financial resources for individual housing projects.

A weakness of efficiency of commercial banks was an important reason in the failure of the solutions. This was confirmed by 72% of the interviewees. This weakness led to an inability to manage instalments. The total of missing instalments reached 428.6 million LD in the period 1971 - 2001. That led to a decrease in the lending ability. Moreover, 61% of interviewees indicated that the absence of studies in advance for the cost of house construction led to wrong estimates for inappropriate loan amounts. The loan amount (15,000 LD) was less than half the typical building cost of a house. 57% of interviewees also reported that, the urban planning departments lag in the implementation of new plans for new projects was one of the reasons for failure. This insufficiency led to a mushrooming of housing units, randomly located to areas, which lacked the infrastructure and healthy conditions for effective community development.

#### **5.4.5. Negative Affects of Housing Shortage**

Many negative effects of the housing shortage have appeared in the second half of the 1980s. These negative effects affected social life in the Libyan society. The deferring marriage phenomena became clearly observed where the average marriage age increased to 35 years for a male and 27 years for a female, having previously been 22 -25 years for a male and 18 - 20 for a female in the 1970s. In addition, 95% of interviewees indicated that deferring the marriage age has been one of the most important negative effects on Libyan society.

One of the other observed negative effects of the housing shortage has been an increased reluctance to marry, and the new phenomenon of spinsterhood has become rampant in Libyan society. 91% of interviewees confirmed that the housing shortage has caused an increased reluctance to marry in the Libyan youth.

The spread of the sale of the lease phenomenon (Sub-letting is the comparable UK term) in Libyan society, has emerged as a result of the lack of housing supply. One impact has been that landlords incur huge costs in evicting illegal tenants. 82% of interviewees' are definite that the sub-letting was one of the major negative side effects of the housing shortage. This 'sub-letting' also includes dual-tenancy when the resident leaseholder allows another family to occupy the same residence.

Furthermore, 78% of interviewees considered fraud on property and occupancy laws are a negative effect that has happened due to the continuing shortage in housing. This behaviour became more notable by observation, since the 1980s and has severely affected Libyan society.

Approximately 61% of interviewees identified an increasing divorce rate as one of the negative effects of the shortage in housing: the Libyan statistic book, 2002, affirmed the divorce rate reached 5.8% in 2001. From local observations, it can be said that the shortage of housing was also a contributory cause for an increase of the divorce rate.

There are a number of other negative effects resulting from the problem of shortage of housing provided in the semi-structured interviews, and some minor observations, did not appear in other sources of data. 50% of the respondents reported that, the shortage of housing was a reason for family disintegration. In addition, 32% of interviewees also reported that, the spread of administrative corruption in the housing sector was a reason for the housing shortage. Both of these latter findings have not been substantiated in the secondary literature sources.



### **5.4.6. Finance Barriers in the Housing Sector**

Perhaps the crucial dilemma of the housing sector has been the barriers of finance. These difficulties of finance being due to a number of factors. Correspondence between the Central Bank of Libya (CBL) and the General People's Committee for Housing (GPCH), and the General People's Committee about the 60,000 housing units, illustrates the size of the finance problem. In addition, the letter from the Secretary of the General People's Committee on 08/09/1997 to the Secretary of the Secretariat in the General People's Congress illustrated the difficulty of obtaining local construction materials.

Through the interviews analysis, 86% of respondents said that the reluctance of the private sector to invest in housing because of the issuance of Law No. 4 of 1978, led to the decline of private sector efforts, therefore contributing to the stop in housing construction.

In addition to the above, the inefficiency of commercial banks and their dependency to the Central Bank of Libya (CBL) - which, possess the lions share of the funds - makes these banks unable to make their own decisions, especially in the policy of housing loans. The results of interviews illustrated that 91% of respondents confirm that the weakness of efficiency of the commercial banks, was a reason for the lack of finance in housing.

Furthermore, total funds for housing shown in the development plans were insufficient especially as of to 1984. The allotted amounts for housing decreased generally, for instance the amount dropped from 208.2 M.L.D in 1984 to 3 M.L.D in 1995, as was shown in table 5.1, whereas the actual expenditure ratio fell more sharply in most years. Even falling to less than 50% in some years. 52% of respondents affirmed shortages of funds in housing development plans were a reason for the finance barriers.

Private loan amounts for housing purposes are inefficient. The original 15,000 L.D, then increased to 30,000, as mentioned previously, but this amount is still too little to finish construction. 56% of interviewees said the maximum available loan, caused finance problems in the housing sector.

### **5.4.7. Other Factors Affecting the Housing Sector**

There are some additional factors that affect the housing sector indirectly. For instance, the extent of availability of construction materials has a large affect on housing, 60% of respondents reported that the availability of construction materials amounted to only 50% of needs. Moreover, the General Council for Planning report on Project Housing Policy and Urban Development in 2002 illustrated the insufficiencies of local construction materials.

The General Council for Planning report on Project Housing Policy and Urban Development in 2002 also represented the scarcity of skilled labour in the housing sector as affecting housing and proposed this as a major reason for the housing shortage. 55% of interviewees affirmed that the scarcity of skilled local labour (due to a lack of special training institutes for construction) was one of the crucial reasons for the shortage in housing.

55% of respondents also reported that the lack of a training infrastructure could be a strong reason for disruption of housing construction, but no other source was found to confirm this.

### **5.4.8. The Extent of People' Satisfaction with Their Houses**

Despite Libyan peoples' desire to build their own houses (affirmed by 55% of interviewees), but a shortage of loans as mentioned before, made them resort to buying ready-built houses and paying in instalments. Generally, habitants are not fully satisfied with these houses where 73% of respondents' reported only moderate satisfaction. Their dissatisfaction can be attributed to a number of reasons: 73% of interviewees were unsatisfied because of the narrowness of dwellings; 73% said the reason was the high occupier ratio in the dwellings. A further reason was the shortage of separate rooms in the dwellings, affirmed by 69% of respondents. In addition, 60% of interviewees said the age of dwellings and absence of maintenance was a major reason for dissatisfaction with their dwellings. Bilghit, (2007) also confirmed the general dissatisfaction with stock housing.



## 5.5. Private Sector Role in Housing

The private sector plays a crucial role in the housing sector. In particular, in the period before 1988, when its contribution rate to total houses was 61.6%, as shown in table 5.2. The majority of these private houses have been built using loans from commercial banks and the Saving and Real Estate Investment Bank which all work under Central Bank of Libya (CBL) supervision. This rate should now be bigger, but private companies have stopped investing in housing since law No.4 for 1978 was issued as mentioned above.

*Table 5.2: Executed housing units during 1979-1996*

Year	Public housing	Private housing	Total	% private
1970 – 78	65827	90240	156067	57.8 %
1979 – 88	79784	127913	207697	61.6%
1989 – 96	49993	72078	122071	59.0%

Sources: 1. The General People's Secretariat of Planning, Economic and Social Scanning in Jamahiriya in period 1975- 1978, January 1979, p 26.

2. The Secretariat of Planning, Executants of Economic & Social Development in the first of September Revolution Era 1970 – 1975, 1977, p38.

3. The General People's Secretariat of Planning and Trade, Executant's of National Economy 1970-1996, 1997:23.

73% of respondents avowed the importance of the private sector in housing and they think the private sector can contribute strongly to solve the housing shortage if given the opportunity.

In addition, the General People's Committee for Planning, Economics and Trade study to evaluate housing policies in the Jamahiriya (1997), illustrates, the importance of the private sector, and reported that the private contribution rate in housing in the period 1993 -1996 had dropped further to 33.7%. Moreover, both the General Council for Planning study (2002) and the General Board for Housing (2003) confirmed that the private sector was prevented from contributing to solve the housing problem due to legislation.

Local investors in housing are rarely in compliance with planning requirements when carrying out housing. The General People's Committee for Planning, Economics and Trade study (1997), the General Council for Planning study (2002) and the General Board for Housing (2003), reported on the inefficiency of local public and private companies for construction. Additionally, 73% of respondents confirmed that local companies are late in the execution of projects, and that the quality of execution is poor. At the same time 65% saw local investors as incapable of executing large projects and in need foreign assistance.

According to the previous reports and studies and findings from interviews the advantages and disadvantages as shown in table 5.3.

Table 5.3: Advantage and Disadvantages of Private Investors

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▶ Consideration of the public nature.</li> <li>▶ Providing appropriate prices.</li> <li>▶ Providing new opportunities for local labour.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Targeting to maximize their profits.</li> <li>▶ Absence of national point of view on housing.</li> <li>▶ Delays in the dates of implementation.</li> <li>▶ Absence of commitments to quality.</li> </ul>

## 5.6. Foreign Investment in Housing

Foreign construction companies have contributed strongly to the housing sector in Libya. Table 5.2 pointed to the high foreign companies' rate in building housing units which achieved 85.2% in 1982.

Many large housing projects had been executed by foreign companies such as the 7000 housing units in Benghazi city by Daewoo, a Korean Company. This project contributed to a diminution of the housing dilemma in the early 1990s.



**Table 5.4: Executed housing units by local and foreign companies  
in 1970 -1980 – 1981 – 1982**

Year	Units executed by local companies	%	Units executed by foreign companies	%	Total
1970	4034	22	14366	78	18400
1980	21493	43.6	27786	56.4	49279
1981	10416	16.9	51255	83.1	61671
1982	18813	14.8	108238	85.2	127051

Source: General People's Committee for Planning, Economics and Trade (1997),  
Evaluation of Housing Policies in Jamahiriya, pp 24, Tripoli.

However, these companies have now largely exited Libya, for a variety of reasons.

Despite the good reputation of foreign companies, there are some negative notes that are remarked on by Libyan authorities: the flowing of hard currency out of the country, where about 4 billion L.D, has been transferred out of the country until 1984; incomplete housing projects spread countrywide that had been executed by foreign companies. This is mainly attributed to two reasons: lack experience; or spread of corruption that led to contracts with incapable companies and it is worth noting the inability of the Libyan side to meet its commitments and pay the instalments on time.

#### **5.6.1. Future Foreign Investment Possibilities to Enter the Libyan Market**

Most studies related to the literature of FDI, illustrate the desires of both host country and foreign investors to participate in FDI projects since benefits will touch both sides as mentioned in chapter two. Moreover, all answers to questionnaires that were sent to foreign companies relating to their desire to invest in Libya were positive; at the same time, the Libyan side is now welcoming the foreign investors. All interviewees said the housing sector in Libya now needs foreign investors' assistance and this assistance might be a major factor to solve the housing shortage problem; especially from those

having a long experience and capability to execute huge projects. In addition, the Libyan governments' attitude has been changed completely to be now encouraging for foreign investors to enter Libyan markets by legislated new laws in this matter such as law No. 5 for 1997 and law No.7 for 2003. It is worth noting that Libya now allows foreign investors to invest in real estate and infrastructure projects, besides, other sectors such as agriculture and industrial projects, services, electrics, tourist projects...etc.

Foreign direct investment can contribute in different ways. 52% of Libyan interviewees reported that FDI could contribute by direct finance of housing projects, while only 28% of international responses agreed with them. But both interviewees and questionnaires respondents' answers agreed that the best way for FDI contribution is in the direct execution of projects, where 90% of interviewees and 85% of questionnaires respondents affirmed this. Programming and consultation are other matters for contribution, 43% of interviewees agreed with 71% of answers of questionnaires respondents on this issue. This low rate for interview respondents in finance matters is a return to foreign investors' distrust of Libya. The interviewees believe the FDI investors are unfamiliar with the Libyan investment environment as a result of media activity against Libya. While, interviewees' have confidence in themselves that they can do more, in jobs such as programming and consultations.

### **5.6.2. Foreign Direct Investment Advantages and Disadvantages**

Both host country and foreign investors see advantages and disadvantages from different angles according to their attitudes. While the interviewees saw the advantages in: transferring high technology to the host country; providing jobs for local labour; introducing experience; contributing by financing projects. The foreign investors saw advantages in: opening new markets; maximizing their profits; benefiting from raw materials in the host country; benefiting from the low labour price in host country.



At the same time, when the foreign investors said there were no disadvantages for FDI, the Libyan interviewees saw FDI had disadvantages in: out flow of hard currency; dependence to foreign economies as illustrated in Table 5.5.

**Table 5.5: Advantages and Disadvantages of Foreign Direct Investment from Foreign Investors' Viewpoint and Libyan Interviewees' Viewpoint**

	<b>Advantages</b>	<b>Disadvantages</b>
<b>FOREIGN INVESTORS</b>	<ul style="list-style-type: none"> <li>▶ Entrance to new markets.</li> <li>▶ Maximisation of profits.</li> <li>▶ Exploitation of raw materials.</li> <li>▶ Benefiting from the low labour price.</li> </ul>	<ul style="list-style-type: none"> <li>▶ There is no disadvantage.</li> </ul>
<b>LIBYAN INTERVIEWEES</b>	<ul style="list-style-type: none"> <li>▶ Transferring high technology.</li> <li>▶ Creation of job opportunities.</li> <li>▶ Introducing large-scale experience.</li> <li>▶ Financing of projects.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Outflow of hard currency out.</li> <li>▶ Dependence to foreign economies.</li> </ul>

Source: Editing by Author

### **5.6.3. Foreign Direct Investment Determinants**

To attract foreign direct investment, requirements should be provided; these requisites could be listed in:

#### **5.6.3.1. Reform of the tax system**

Many countries attract foreign investment by giving free tax exemptions for different periods; despite tax facilities mentioned as one of the FDI determinants in the literature as cited above in chapter three. Egypt's experience was negative when tax-free exempting for foreign investors did not achieve the required results. However, in the empirical study, both sides, foreign investors and host country affirmed that the tax-free exemption is not enough on its own to

attract FDI, but it will be a help. 57% of foreign respondents confirmed the importance of the tax-free status, 65% of interviewees agreed with them. Hence, Libya has created a lot of modifications in taxation laws as an inducement to encourage the private sector in general and to encourage FDI in particular.

In this issue, it cannot be said that there is one magic factor to attract FDI, but when factors in alliance are put together they provide a better investment environment, and this is what investors consider.

### **5.6.3.2. Legislations Issuance to Attract FDI**

Legislation issuance plays a significant role to attract FDI. The literature related to FDI verified that foreign investors are directed to countries, which have suitable legislation such as commercial law, organizing laws for FDI, law for entry to the country etc. In addition, both sides, foreign investors and the host country affirmed to what extent attractive statutes are important for FDI as they answered in the questionnaires and semi-structured interviews. 86% of interviewees and 64% of questionnaires' respondents confirmed that legislation to support FDI is important. Therefore, Libya issued a number of laws to attract FDI, for instance law No. 5 for 1997, and then modified it by law No. 7 for 2003, to become more appropriate.

Legislation issuances are not enough, but activation of these statutes becomes most important. From secondary source observations, Libya has issued several laws but their application was not efficient enough. So, foreign investors need to feel that Libya is serious in its desire in this matter.

### **5.6.3.3. Political and Administrative Stability**

Foreign direct investment flows to countries that have political stability as mentioned in chapter three. While 35% of questionnaire respondents answers mentioned that political stability had been achieved in Libya, whereas 69% of the interviewees see Libya as one of the countries that have a stable political system, and this is considered as favourable for attracting FDI. But despite the



importance of administrative systems to complete investment procedures, Libya has suffered from administrative instability. Nonetheless, questionnaire respondents and interviewees both affirmed that the administrative stability is a significant factor in attracting FDI. Moreover, the observations told of continuing difficulties in administrative procedures; particularly in paying instalments, which then caused the contract cancellation with foreign companies in the housing sector.

#### **5.6.3.4. Existing transportation and communications**

Providing FDI for transportation and communication projects in a host country is considered as an attractive factor. FDI studies pointed to the importance of transportation and communication means, such as telephone lines, internet, highways, and infrastructure. Observations confirm that Libya suffers a lack in transportation and communication means but it has started to improve them recently. 57% of questionnaire respondents verified that providing good transportation and communications affect their investment decisions. Libyan interviewees did not mention this issue.

#### **5.6.3.5. Freedom of Movement of Funds**

Capital movements between countries are a crucial factor in attracting FDI, where it is impossible to invest without freedom of movement of funds in and out of the host country. FDI theories depend on the idea of movement of capital, from rich countries to countries which desire to host these funds.

In this respect the Libyan authority, aimed to host FDI by allowing movement of capital by establishing new laws make movement of capital in and out of Libya, more freely achieved as shown in the survey of Libyan documentation. In addition, investors' respondents and interviewees confirm the importance of freedom of movement of capital, 78% of questionnaire respondents and 86% of interviewees' answers affirmed this.

### **5.6.3.6. Stability of Exchange Rate**

Decisions makers in FDI are scared of a crisis caused by huge changes in exchange rates; therefore they prefer to invest in stable economies. Stability of exchange rates is considered as one of the elements of economic stability. Through studying LBC reports, the stability of exchange is clearly a characteristic of the Libyan economy.

Questionnaire respondents said stability of exchange was a crucial element of deciding to invest in a country or not, where 67% of them confirm this, and 78% of Libyan interviewees agreed with them.

### **5.6.4. Additional Remarks**

Through reviewing the target samples of the field study's answers, there are several remarks worth noting. These remarks can be listed as follows:

- There is a desire from both sides to participate to benefit from this contribution;
- FDI investors consider the transparency and provision of adequate information about the investment climate in Libya to be a critical factor when taking decisions;
- Foreign investors prefer to enter by joint venture deals, and Libya is prepared to accept this kind of agreement;
- Foreign investors accept a reservation is necessary to engage in projects under full ownership clauses to provide full protection of their rights;
- There is a good opportunity for participation between Libyan companies and foreign investors;
- Trust is still not sufficient for foreign investors in Libya due to a lack of information;



Foreign investors cannot invest a huge amount of capital, in large projects such as housing projects, which take a long time to be established without additional changes.

### **5.6.5. Advantages of Joint Venture Participation**

Both sides agreed to a number of positives of participation between foreign direct investment and local companies, and most agreed that the pros are:

- Foreign direct investment entry provides skills for local employees;
- Spreading FDI leads to the creation of new job opportunities for local workers;
- This participation provides advanced know-how for the local market;
- Foreign investors experience contributes to a reduced cost of work;
- High technologies that foreign investors utilise produce better qualities of production;
- Joint Venture participation leads to advancement in the knowledge.

## **5.7. SUMMARY**

This chapter is the backbone of this study, where the results of the analysis of the primary data are presented. The results have been analysed and discussed and triangulated with other sources.

This chapter presents, in the first section, the housing shortage problem and its reasons, and at the same time defines the attempts to overcome the problem and the reasons for the lack of success.

The second section spotlights the possibility of foreign direct investment contribution to overcome this problem. It defines the conditions that should be provided to make this effort a success from both sides' viewpoint.

The next chapter will summarize this study and present the final recommendations from the results of this chapter.

## **CHAPTER SIX**

### **CONCLUSION AND RECOMMENDATIONS**



## **6.1 CONCLUSION**

This study aims to investigate how to attract foreign direct investment (FDI) to invest in the housing sector in Libya. A number of objectives have been formulated to achieve this aim. This research contains two issues: the first studies the housing shortage and the second concerns the attraction of foreign direct investment.

The first issue (of housing shortage) is investigated through the first three research objectives (as mentioned previously in 1.7, page 19):

- (i) Investigate to what extent Libya needs new housing;
- (ii) Understanding the reasons that have caused a shortage in housing;
- (iii) Evaluate Libya's attempts to solve the housing shortage problem.

The first objective investigates to what extent Libya suffered from a shortage in housing through comparison between housing demand and housing supply from Libyan official statistics; the second objective, defines the reasons, which caused the shortage in housing in Libya based on the interviewees answers, and official documentation; the third objective evaluates attempts to solve the housing shortage, and to understand the reasons that hinder these solutions.

The second issue (of attraction FDI) is examined through the next two objectives (as mentioned previously in 1.7 page 19):

- (iv) Determine what Libya has done to date to attract international investment;
- (v) Explore the potential benefits for both Libya and international investors.

The fourth objective tries to determine what Libya has done to date to attract international investment in housing. The fifth objective explored the potential benefits for both Libya and international investors. Official documentation and interviews answers have been used in answer to the last two objectives.

The amalgamation of the two issues to form a coherent response to the specific investigation of FDI in housing is evaluated through the final objective (as mentioned previously in 1.7 page 19):

- (vi) Define the essential conditions for attracting future international investment to alleviate the housing problem.

The last objective seeks to define the essential conditions for attracting international investment to alleviate the housing problem. The whole data resource mentioned in chapter five has been used in the last objective.

According to the research nature, an exploratory methodology has been adopted in this study and this is justified in chapter four. Studies in both housing and attracting foreign direct investment in Libya are still very insufficient and modest. The literature review in chapter two presents the current corpus of knowledge to be explored to identify if there is a problem and what reasons can be attributed to it.

Therefore an exploratory methodology is appropriate for this kind of study due to the rarity of studies and research to investigate this phenomenon. Thus a phenomenological philosophy has been adopted in this study.

Qualitative and quantitative methods have been adopted to analyse the data obtained from collected sources, where qualitative methods are used to analyse open questions in the questionnaire and semi-structured interview, and quantitative methods are used with closed questions.

To achieve the study aim and answer the research questions appropriate techniques have been chosen, these techniques were: Observations; Semi-Structured Interviews; Questionnaire; and Document Analysis; and these were put in service of an exploratory case study approach.

This research thesis comprises six chapters. The first chapter is introductory which covered a general view of the Libyan economy, and introduced the housing problem in Libya. At the same time it presents the historical



development of the housing sector since 1970. A summary of the methodology as adopted in the research is presented in this chapter.

A literature review was covered in the next two chapters, where chapter two deals with foreign direct investment in detail. Foreign direct investment definitions, theories of FDI, and the impact of foreign direct investment on the host country, etc are presented. Chapter three covered a literature review of housing which presented housing concepts, problems that faced the Libyan housing sector, and housing policies.

Chapter four treated the methodology which was used in this study; this dealt with the philosophy encompassed in this study which was a phenomenological philosophy, and identified the methodology, methods, and techniques used. The fieldwork approach of this study was explained in this chapter.

Chapter five contains the findings that have been obtained from data analysis. Findings from different data sources have been discussed in a triangulation method. In this chapter, the housing shortage in Libya has been proved and local initiatives have been discussed and the failure of these initiatives has been explained. This chapter also illustrated how the housing shortage appeared since law 4, 1978, was established and its affect since the early 1980s.

The reasons for the housing shortage and the reasons for solution failures has been discussed on this issue, interviewees answers, official documents, and experts reports have been used to examine the problem.

This chapter approached the role of the private sector both local and foreign in investment. It studied the possibility of foreign direct investment to contribute to solve the housing shortage problem from the Libyan authorities' viewpoint and the foreign investors view point.

This last chapter, presents general findings and conclusions for the research overall, then gives the recommendations which has been deduced therefrom.

## **6.2 CONCLUSION OF RESEARCH OBJECTIVES**

To achieve the research aim, six objectives have been formulated. Through analysing the data of the research, results have been reached of objectives which will be presented briefly in three sections. The sections are:

### The Housing Shortage in Libya

- Investigate to what extent Libya needs new housing;
- Understand the reasons that have caused a shortage in housing;
- Evaluate Libya's attempts to solve the housing shortage problem;

### Attracting FDI in Libya

- Determine what Libya has done to date to attract international investment in housing;
- Explore the potential benefits for both Libya and international investors;

### Attracting FDI into Libya

- Define the essential conditions for attracting future international investment to alleviate the housing problem.

### **6.2.1 THE HOUSING SHORTAGE IN LIBYA**

The research illustrated that there is a huge shortage in housing, and this shortage started in the early 1980s. The Secretary of the General Peoples' Committee identified the housing shortage in Libya as more than 400,000 units in 2005. Most of the sources that have been used in this study confirmed that there is a real housing shortage problem in Libya.

To understand the reasons that have caused a shortage in housing, the investigation illustrated that the reasons could be divided into two kinds; internal reasons and external reasons as mentioned in detail previously in chapter five. Internal causes fall in the following:



- (i) adopting over ambitious targets;
- (ii) administrative system instability;
- (iii) population increases;
- (iv) inadequacy of experience of local contractors;
- (v) legislation that prevents leasing;
- (vi) decrease in financial resources;
- (vii) vacillating public targets;
- (viii) lack of adequacy in urban planning;
- (ix) changes in the residential behaviour of the population.

While the external reasons fall in the following:

- (i) United Nation sanctions imposed on Libya;
- (ii) foreign companies' boycott;
- (iii) decreases in oil revenues.

To evaluate Libya's attempts to solve the housing shortage problem, this study clarified that Libya had implemented some initiatives to overcome the shortage in housing. These were attempts represented in establishing 60,000 housing units and encouraging local construction companies in different ways to implement housing projects, but these attempts were not a success. The reasons that have prevented the success of these initiatives have been addressed in this thesis as mentioned previously, and fall under the headings of:

- (i) Legislative reasons;
- (ii) administrative reasons;

(iii) political reasons;

(iv) economic reasons.

### **6.2.2 Attracting Foreign Direct Investment in Libya**

To determine what Libya has done to date to attract international investment in housing, after an in-depth investigation the research illuminated that Libya had worked to provide an appropriate environment to attract FDI in some areas and not in others. Libya has established a lot of modifications in taxation laws to be more attractive for FDI. Moreover, Libya issued law No. 5 and then modified it by law No. 7, to attract FDI. Despite the political stability in Libya, and the new political reforms, the administrative bodies still need more reforms, and it is still slow and insufficient to attract investment potential. Also it is significant to mention the importance of transportation and communication which is characterised as a Libyan weakness. Furthermore, Libya issued new laws regarding financial matters, such as freedom of movement of funds and profits, also the stability of exchange rates where identified as positive advances.

To explore the potential benefits for both Libya and international investors, both partners must seek to achieve benefits as a result of this participation. Where the foreign investors will benefit from:

(i) entry to new markets;

(ii) maximisation of their profits;

(iii) the exploitation of raw materials and low labour prices.

The host country will benefit from:

(i) high technology;

(ii) creation of job new opportunities;

(iii) possibility to finance projects;

(iv) introducing international experience.



The research pointed to the expectations of both sides to benefit from these advantages.

### **6.2.3 Attracting FDI into the Libyan Housing Sector**

To define the essential conditions for attracting future international investment to alleviate the housing problem was covered by the literature in chapter two, and in practice in chapter five, whereas it clarified the political and economical conditions that should be provided to improve the investment environment.

Since investment in the housing sector for the purpose of leasing is generally characterised by the length of the recovery period (pay-back), and this makes investors reluctant to invest especially in an environment that it does not know much about. Therefore, to attract investment for the housing sector in Libya recovery period must be reduced especially in the initial period to get the confidence of investors, through investment construction for the purpose of sale.

The entry of middlemen between buyers and investors such as commercial banks provides a greater level of confidence for investors, which at the same time this gives opportunity for the banks to re-employ their capital to ensure housing units production.

Economic, political and social reforms carried out by Libya's recent step to attract investors is still insufficient to achieve the confidence of investors despite Libya's determination to continue to pursue openness policies to the wide world, and this returns to the weakness of the Libyan media. However, the first investors enter to Libyan markets are likely to reap the gains of priority (first-move benefits).

## **6.3 Critical Assessment of the Research Methodology**

According to the nature of the study, the research has adopted an exploratory research methodology and this is necessary because of the rarity of studies in Libyan society during more than three decades, and the rarity of FDI experience in investment in housing in general. Due to the different sources used in the

field study, triangulation methods were the most appropriate method to analyse and discuss multi-sources data.

In addition to the literature, observations and official documentations, questionnaires and semi-structured interviews were necessary to cover the whole of the research, where, during field study some issues were raised:

- (i) Ethical and moral issues: the most important issue faced in data collection was anonymity. Most people accepted to do the interview under the condition not to mention names or positions. Moreover, no one accepted voice recording during an interview. Many of interviewees believe, especially junior staff, of the futility of such interviews. Also many of interviewees were afraid of taking responsibility of giving data that they believe was entrusted to them. With regard to the questionnaire, it did not receive a large number of replies. A small proportion sent an apology for their lack of interest in the topic.
- (ii) Criticality of Sampling frame: Because some of the interviewees staff were in leadership positions it has been difficult to achieve all of the proposed interviews. Some of my relatives have a relationship with them and used this to persuade them to participate to arrange interviews with the high level officials, and often after work hours. Some of them determined a maximum of an hour for an interview, and sometimes the date changed according to circumstances. Interviews with senior officials occurred first because they knew all matters relating to the problem and the policies that have been followed to resolve it and it answers some of the political issues. The interviews with lower-level officials occurred to confirm previous answers and add information not previously available. The interview samples of the different levels of functionality and different regions, as set out in chapter four were used in order to generalise the results and ensure neutrality. The questionnaire for foreign investors was divided into two categories: first, foreign investors already working in



Libya (three Egyptian companies, two Turkish companies and one Korean company); and the second with investors who have never dealt with Libya (five UK companies, three Spanish companies and one Egyptian company), this variety reflects the breadth of the selection sample to ensure unbiased distribution.

## **6.4 RECOMMENDATIONS**

Through the results of data analyse, the recommendations fall under two sections, for more details see appendix 4.

### **6.4.1 Recommendations to Reform the Housing Sector**

- Creating suitable land for housing projects;
- Pass laws encouraging the private sector to contribute to the housing sector and to activate these laws;
- Improve the board of urban planning to be able to provide plans for the establishment of housing projects;
- Not to exaggerate in assessing the possibility of local companies in the implementation of housing projects;
- Funding research and studies to investigate housing problems and find solutions for them;
- Improve the loans system in commercial banks to play their role in the housing sector.

### **6.4.2 Recommendations for Attracting FDI**

- Providing appropriate investment climate to attract FDI;
- Reform the banking system in Libya, in general;
- Facilitating procedures for the entry of investors and the free movement of money to and from Libya;

- Intensifying publicity and advertising for the benefit of new investors in the country and offer benefits granted to foreign investors;
- Gain the confidence of investors through activating the laws to attract foreign investment.

## **6.5 CONTRIBUTIONS OF THE THESIS**

The contribution of this thesis is represented in: firstly; Libya still lacks studying the whole society's life and the economic side is one of most important sides which, should be studied. So this thesis deals with two issues in the Libyan economy which has not received enough concern from previous researchers. These issues are: (i) the housing shortage; (ii) how to attract FDI.

Both of these issues could be a subject in need of a lot of studies separately, therefore the crucial contribution is to deal with these critical issues that touch peoples' lives directly. Some papers at conferences have addressed these issues timidly, despite the importance of the topic most was attention to the addressed problems rather than solutions.

Despite the importance of the problem of the housing crisis affecting the whole Libyan community, its cause was not specified clearly before this study, which highlights the existence of the problem and identifies its dimensions, which in itself is a contribution to scientific attention. It also finds the causes of the problem as another contribution, in addition to assessing previous attempts to solve the problem and identifying the reasons that have prevented this.

The opportunities of attracting foreign direct investment are a new contribution for a developing country moving from a closed economy in a bid to attract investors. The preparations required for that, and the potential benefits from this openness are also explicitly identified.

Libya in this new era needs to be a study of society as a whole. While the past three decades have been characterized by the lack of studies to examine the problems which the Libyan community has been suffering, such as economic



problems, political problems and social problems. Trying to find solutions to them, and making the issues of Libyan society explicit is one of the major contributions of this thesis.

The merging of both issues in one study and the attempt to solve the problem of the shortage in housing through the solution of the problem of how to attract foreign direct investment is a new contribution in this regard.

## **6.6. Further Research**

### **6.6.1 Introduction**

This subject is very wide and this thesis covers a significant part, however a lot of further studies should be considered in the other parts of this subject. So, it recommended that further research in housing and foreign direct investment separately, or studying as one issue in other countries should be conducted.

Housing is a vital subject in the wider world; developed countries are concerned as developing countries are. Problems that should be studied carefully in this area are:

- Public housing policies;
- Investment in housing;
- Urban planning and housing;
- Causes of shortage in housing in different countries (comparison studies);
- Environmental problems and housing;
- Developing indigenous materials that can be used in the housing industry;
- The importance of housing design and community culture;
- Reducing costs in the housing industry;

- Problems of finance in housing projects;
- Governments role in the housing sector development;
- The role of the private sector to improve the housing sector;
- Problems of financing low-income peoples' housing;
- The relationship between housing shortage and other social problems (such as crime spread, vagrancy...etc);
- The negative effects of housing shortage on the society;
- The importance of house leasing to solve the housing shortage in Libya;
- New viewpoints of the governments' role to solve the housing problem.

In regard to foreign direct investment, there are a huge number of studies that should be researched; the following are some of these proposed studies:

- The role of foreign direct investment in the finance of large projects;
- Host country role to attract foreign direct investment;
- The responsibility of foreign direct investment to eliminate poverty;
- The role of foreign direct investment in improving local employment;
- The role of foreign direct investment and technology transfer;
- Foreign direct investments role to introduce advanced systems to the host country;
- The importance of experience transfer to the host country;
- The positive and negative aspects of foreign direct investment;
- Other countries experiences of FDI (comparison studies);



- Which economic sectors are more attractive for FDI?;
- What Libya still to needs do to attract FDI?;
- Is Libya in need of foreign aid to overcome its housing problem?;
- To what extent does Libya need foreign aid to improve the housing sector?;
- The importance of new markets for foreign investors;
- What is the foreign investor still afraid of in Libya?;
- Share of the benefits between foreign investors and host country.

These proposed studies could merge two or more together, and these fields are still wide open to further research issues in further later studies.

### **6.6.2 Implications for FDI Investment**

FDI investment affects both sides, where FDI enters in projects physically, in different modes of FDI, such as J.V (Joint Venture), this gives the opportunity for the host country to benefit from technology transfer, participate in finance of new projects, provide job opportunity for local employment, and benefit from foreign experiences. At the same time foreign investors will open new markets that help them to build new relationships with peoples from various cultures, which will support them to take the next step to enter neighbour countries. Moreover, foreign investors will benefit from raw materials, and may be discover new materials in these unprecedented lands.

### **6.6.3 Implication for the Libyan Housing Sector**

The housing sector can play a leading sectoral role for many industries in Libyan society. Where, the housing sector activity leads to activate many industries such as cement industry, iron industry, and other industries related to housing. While, the housing sector in Libya particularly, is characterised by special features, such as high demand for houses. This gives a wide

opportunity for investors to gain priority to enter to ensure the benefits of the market.

Libya now seeks to benefit from domestic and foreign efforts to overcome its housing shortage as one of the most important challenges should be to provide an appropriate environment, by providing suitable lands for housing projects and making procedures for investors easier to establish their projects.

#### **6.6.4 Implication for other Libyan Economic Sectors**

Economic reform requires working in whole sectors of the economy at the same time, where such economic sectors affect each other. Because of the reciprocal relationship between the various sectors, it can be said that there can be no reform of a particular economic sector in isolation from other sectors. On this basis, Libya is seeking economic reforms within the comprehensive reform of the society, and the reform programme is based on the new foundations of openness and cooperation and the involvement of the private sector to play an important role in economic and social development. As these recent reforms progress, the results did not show a clear trend. There were positive aspects of these reforms, such as the issuance of legislation to encourage the private sector to participate in economic activity and further legislation to attract foreign investments. In addition, Libya has started to fight against corruption and has commenced reform of public institutions. So, other sectors in the Libyan economy, in particular the banking sector, the tourism sector, and the industrial sector have all started to benefit from cooperation with foreign organisations, and gain a high level of technology and wider experience.

#### **6.6.5 A portfolio Approach and FDI to Alleviate the Libyan Housing Shortage**

This research concentrates on FDI particularly, as one of international investment components. While, a portfolio approach is one of the most important issues needed to be investigated separately. A portfolio approach required a complete market and a strong stock market. But in fact the Libyan stock market only started in 2006 and still only works as a primary market.



Recently, a portfolio approach can not move freely to alleviate the Libyan housing shortage in the absence of the main tool – stock market – working efficiently. However, the opportunity will be greater when the stock market in Libya is complete, especially the secondary stock market.

In regards to FDI, the opportunity is larger to invest in Libya in particular in housing due to the high level of housing demand, and the open policy Libya has adopted under Libya's desire to attract FDI. Finally it can be said, presently FDI has more ability to alleviate the Libyan housing shortage than the portfolio approaches.

## **Appendix**



## Appendix 1: Semi-Structured Interview

## Semi- structured Interview

## Section 1

## Personal details

I would be grateful if you could answer some information about your self and your level of experience in housing.

Could you please ring the appropriate answer?

1 – Could you please tell me what age category you fall in?

A	20 - 30
B	31 - 40
C	41 - 50
D	51 - 60
E	60+

2 – What are your academic qualifications?

A	Primary
B	Secondary
C	University degree
D	Postgraduate
E	Other

3 – If your answer is E specify . .....

4 – If your answer is C or D specify field of specialisation.

A	Engineering
B	Economics
C	accounting
D	Management
E	Other

5 – How many years of professional experience have you had?

A	0 - 4
B	5 - 9
C	10 - 14
D	15 - 20
E	20 +

6 – What is your position in your job?

A	Secretary of people's committee of sector in Shaabieh (Province)
B	Secretary of people's committee of sector in basic people's congress
C	General Manager
D	Manager
E	Head of Department
F	Official
G	Other

7 – How many employers work with you (write number)

Engineer	
Economist	
Accountant	
Administrator	
Others	
Total	

Thank you. Now you completed the first section.



**Section 2**

**General information;**

**I would like to ask you about the housing problem.**

**8- Do you think there is real housing problem?**

A	Yes
B	No
C	Don't Know

**9- How long ago do you think the housing problem appeared?**

A	0 - 10
B	11 -20
C	21 -30
D	31 - 40
E	41 +

**10- What are the five most important characteristic of the housing problem?**

1-	
2-	
3-	
4-	
5-	

**11 – Were there any state measures that measured the housing problem?**

A	Yes
B	No

12 – If the last answer is A please list below?

1-
2-
3-
4-
5-

13- In your view what is the successes percentage of measuring the housing problem?

A	0 – 25%
B	26-50%
C	51 -75%
D	76 +%

14 – If the government could not solve this problem perfectly, in your opinion what four most important reasons which prevented the government to implementation its plans to solve housing difficulty?

1-
2-
3-
4-



15 – From your point of view what are the most important reasons which caused the housing problem?

1-
2-
3-
4-
5-

16 –In your view, what are the most important negative effects of the housing problem?

1-
2-
3-
4-
5-

17 – In your opinion, what are the most important finance retardants in the housing sector?

1-
2-
3-
4-

18– The housing industry requires an abundance of materials, to what extent approximately is local materials used?

A	100%
B	75 %
C	50 %
D	25 %
E	0 %

19– To what extent do skills in professional knowledge in housing industry in domestic?

A	Plenty ample
B	ample
C	Rare
D	Very rare
E	Lacking

20 – To what extent expert training institutions ample in housing sector?

A	Plenty ample
B	ample
C	Rare
D	Very rare
E	Lacking

21 – To what extent are the general utilities such as water, electricity, roads... Act available for houses in domestic?

A	Plenty ample
B	ample
C	Rare
D	Very rare
E	Lacking



22 – In your opinion are people satisfied with their current houses?

A	Extremely
B	Satisfy
C	Moderately
D	Absolutely not

23 – If your last answer is D, why people not happy with their houses?

1-	
2-	
3-	
4-	
5-	

24 - Do you think peoples wish prepared houses or build their own houses?

A	build
B	buy
C	Don't Know

25 – What are the methods of payment to the investors please list?

1-	
2-	
3-	
4-	

26 – How are finance houses projects?

A	Government
B	Commercial Banks
C	Special Finance Institutes
D	Invidious
E	Others

27 – If your answer is E please state .....

Thank you, now you finish answer of this section.



**SECTION 3**  
**ABOUT PRIVATE SECTOR:**

Could you please answer some questions about the private sector?

28– Do you think the private sector prevented the housing problem from being worse?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

29 – Private sector play important role to solve a lot of problems in the society, in your opinion to what extent the private sector participate to solve housing problem?

<b>A</b>	<b>Effective role</b>
<b>B</b>	<b>Good role</b>
<b>C</b>	<b>Not bad</b>
<b>D</b>	<b>Very rare</b>
<b>E</b>	<b>Lacking</b>

30 – To what extent local investor complying with carrying out housing plans?

<b>A</b>	<b>Very much</b>
<b>B</b>	<b>Good</b>
<b>C</b>	<b>Not bad</b>
<b>D</b>	<b>Very rare</b>
<b>E</b>	<b>Lacking</b>

31 – There are advantage and disadvantage in every thing, if you please list four advantages and four disadvantages of private sector?

Advantages:

1-	
2-	
3-	
4-	

Disadvantages:

1-	
2-	
3-	
4-	

32– to what extent local investors complying with dates and quality?

Dates

A	Always in time
B	Some times late
C	Usually late
D	Always late

Quality

A	Very good
B	good
C	Not bad
D	Poor

33 – To what extent local investors to do large projects? What is their preparedness (experience, device...act)?

A	Very powerful
B	Powerful
C	Partial powerful
D	Not powerful



**SECTION 4**

**ABOUT FOREIGN INVESTMENT:**

34 – Do you think there is need to help from foreign investment to triumph over the housing problem?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

35 - Do you think foreign investment can participate to solve dilemma?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

36 – Foreign investment request encouraging advantages to attract him to invest, what are most four advantages?

1-	
2-	
3-	
4-	

37 – What is most important manner the foreign investment can contribute with?

<b>A</b>	<b>Finance</b>
<b>B</b>	<b>Execution</b>
<b>C</b>	<b>Programming</b>
<b>D</b>	<b>Other</b>

38– If your answer is D please state .....

39 – Do you think the problem will solve if foreign investment intervention?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

40 – Have you any experience with foreign investors?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

41 – What kind of experience have you had?

42 - Do you think foreign investment contributes to solve housing issue?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

43 –There are advantage and disadvantage foreign investment, from your point view please list three most important of etch?

**Advantages**

1-

2-

3-

**Disadvantage**

1-

2-

3-

44 – Are you still dealing with foreign investment?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

45 – If your answer is B, why dealing stopped?

1-	
2-	
3-	
4-	

46– Do you think there are retardants restricted foreign investment participation, could you please list four of them?

1-	
2-	
3-	
4-	

47 – in your opinion, to what extent statutes suitable for the attraction foreign investment to invest in housing sector?

<b>A</b>	<b>Very suitable</b>
<b>B</b>	<b>suitable</b>
<b>C</b>	<b>Restricted</b>
<b>D</b>	<b>Prevented</b>

48 – Do you see that the foreign investment will be strong competitor will perform to hurting domestic institutions?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>



49 – Do you think construction market can contain foreign investment without hurting local investors?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

50 – Do you think houses build costs are suitable to attract foreign investment?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

51 – Are there different in pricing between local and foreign investors?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

52 – If your answer is A, whose are benefits from this difference?

<b>A</b>	<b>Local investors</b>
<b>B</b>	<b>Foreign investors</b>

53 – What are the manners of companies' evaluation methods?

<b>A</b>	<b>Capital of companies</b>
<b>B</b>	<b>Companies' experience</b>
<b>C</b>	<b>Companies' reputation</b>
<b>D</b>	<b>All the above</b>
<b>E</b>	<b>Other</b>

54 – If your answer is E please state main three once?

1-	
2-	
3-	

55 – Do you think partnership between local and foreign investors will benefit for both of them?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

56 – If your answer is A, do you think is there possibility of partnership?

<b>A</b>	<b>There is large possibility</b>
<b>B</b>	<b>There is possibility</b>
<b>C</b>	<b>There is conditional possibility</b>
<b>E</b>	<b>It is impossible</b>

57 –If your last answer is C, what are the mean conditions?

1-
2-
3-
4-

58- If the answer of question 56 is E, why it is impossible?

--

59 - If your answer for question 56 is A, B or C. could you refer five advantages and disadvantage of partnership?

Advantages	Disadvantages
1-	1-
2-	2-
3-	3-
4-	4-
5-	5-

60 – Have you any comments you would like to add it?

THANK YOU VERY MUCH FOR COMPLETES THE QUESTIONNAIR.



## Appendix 2: Questionnaire

THE UNIVERSITY OF SALFORD  
SCHOOL OF CONSRUCTION AND PROPERRTY MANAGEMENT



## Questionnaire

PLEASE WRITE (1) BESIDE THE CHOSEN ANSWER.

1-Did you deal with Libyan government or companies before?

A	Yes
B	No

2 – How long did you work in investing in housing?

A	< 10 years
B	10 – 20 years
C	21 – 30 years
D	> 30 years

3 – Foreign investment request encouraging advantages to attract him to invest, what are most four advantages?

1-	
2-	
3-	
4-	

4– What is most important manner the foreign investment can contribute with?

A	Finance
B	Execution
C	Programming
D	Other

5– Do you think there are retardants restricted foreign investment participation, could you please list four of them?

1-
2-
3-
4-

6– In your opinion, to what extent suitable statutes can attract foreign investment?

<b>A</b>	<b>Very suitable</b>
<b>B</b>	<b>suitable</b>
<b>C</b>	<b>Restricted</b>
<b>D</b>	<b>Prevented</b>

7 – Do you think the stability of markets is one of important factors to attract foreign investment?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

8 – Do you agree that the transparency is important issue in investment decision?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

9 - Do you think clear information help to attract foreign investment?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

10 – What is the most important guarantees must abundance to attract foreign investment?

1-	
2-	
3-	
4-	

11 – Do you see that the foreign investment will be strong competitor will perform to hurting domestic institutions?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

12 – Do you think construction market can contain foreign investment without hurting local investors?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>

13 – Do you think low houses build costs attract foreign investment?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>

14 – Do you think partnership between local and foreign investors will benefit for both of them?

<b>A</b>	<b>Yes</b>
<b>B</b>	<b>No</b>
<b>C</b>	<b>Don't Know</b>



15 – If your last answer is A, do you think is there possibility of participation?

<b>A</b>	<b>There is large possibility</b>
<b>B</b>	<b>There is possibility</b>
<b>C</b>	<b>There is conditional possibility</b>
<b>E</b>	<b>It is impossible</b>

16 –If your last answer is C, what are the main conditions?

1-
2-
3-
4-

17- If the answer of question 15 is E, why it is impossible?

--

18- If your answer for question 15 is A, B or C. could you refer five advantages and disadvantage of participation?

Advantages	Disadvantages
1-	1-
2-	2-
3-	3-
4-	4-
5-	5-

19- When are you decide invest in housing in Libya?

20 - Have you any comments you would like to add it?

THANK YOU VERY MUCH FOR COMPLETES THE QUESTIONNAIR





**Appendix3: Law No. (5) of 1426 PB (1997) for Promotion of Investment of Foreign Capital, as Amended by Law No. (7) of 1371 PD (2003)****The General People's Congress**

In compliance with decisions of the Basic People's Congresses in their 2<sup>nd</sup> ordinary session for 1425 PB 1995, as formulated by the General Meeting of Basic People's Congresses and Committees, Syndicates, and Trade Unions and Associations (General People's Congress) in its ordinary session held during the period from (25 – 30) Shawal 1426 PB, corresponding to (4-9) March 1997,

After perusal of the Declaration for establishing People's Authority,

The Grand Green Charter for Human Rights in the Era of the Masses,

Law No. (20) of 1991 for enhancing freedom,

The Commercial Law and its amendments,

Law No. (37) of 1968 for investment of foreign capital.

Income Tax Law No. (64) of 1973, and its amendments.

Customs Law No.(67) of 1973,and its amendments .

Law No. (1) of 1993 regarding Banks, Money – Currency and Credit, and its amendments,

Law No. (1) of 1369 PD (2001) regarding People's Congresses and Committees

**Do hereby formulate the following law:**

**Article (1)**

This law aims at promotion of investment of foreign capital for construction of investment projects within the framework of the general policy of the State and the objectives of economic and social development, particularly as follows:

- Transfer of modern technology
- To build up Libyan technical cadres
- Diversification of income sources

- Contribution to development of national products to assist in entry thereof into the international markets
- To achieve regional development

### Article (2)

This law shall be applicable to investment of foreign capital owned by Libyan Arab citizens and nationals of Arab and Foreign States in investment projects.

The national capital may participate with the foreign capital in investment. The executive regulation for this law shall specify the basics and rules for such participation <sup>(1)</sup>

### Article (3)

In applying this law, the following works and phrases shall have corresponding meanings, unless the context indicates otherwise:

- 1- Great Jamahiriya: Great Socialist People's Libyan Arab Jamahiriya.
- 2- The Law : Law for promotion of investment of foreign capital.
- 3- The Secretary: The Secretary of the General People's Committee for Economy and Trade .
- 4- The Board : Libyan Foreign Investment Board .
- 5- Executive Regulations :The Regulations issued in implementation of the provisions of this Law.
- 6- Foreign Capital: Total financial value entered into the Great Jamahiriya in whether owned by Libyans or foreigners for performing investment activities .

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<sup>(1)</sup> Amended by Law No. (7) of 1371 PD (2003)

- 7- National Capital: Amount in cash or kind assessed by local currency, as involved in formation of the investment project capital, can owned by Libyan citizens or corporate bodies whose capital is fully owned by Libyans <sup>(1)</sup>.
- 8- Investment Project: Any economic establishment based on the Law, whose work results in production of commodity for final or intermediary

consumption or investment commodities or for export or providing service or any other establishment approved by the Secretariat of General People's Committee.

- 9- The Investor: Any national or foreign natural or juridical person investing under the provisions of this law .

#### **Article (4)**

This law shall regulates the investment of foreign capital brought into the Jamahiriya in any of the following forms:

- Convertible foreign currencies or substitutes thereof in coming by official Banking methods.
- Machinery, equipment, devices, spare parts, and raw materials necessary for the investment project.
- Transport means unavailable locally.
- Intangible rights, such as patents ,invention , licenses, trade marks and commercial names necessary for construction or operation of the investment project.
- The part reinvested from the project profits and revenues.

The executive regulation shall organize the manner of evaluating the shares in kind, involved in formation of the capital to be invested in the Jamahiriya.

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<sup>(1)</sup> Amended by Law No. (7) of 1371 PD (2003)

#### **Article (5)**

There shall be established an authority to be called (The Libyan Foreign Investment Board) as an independent autonomous / corporate body, to be attached to General People's Committee for Economy and Trade. It shall be established by decision of General People's Committee upon submission of the Secretary, specifying its legal domicile, and Secretary and members of its Management Committee. The Executive Regulations shall organize the manner of holding the meetings of the Board and the Administrative procedures necessary for establishing of the project.

#### **Article (6)**



The Board shall encourage investment of foreign capital and promote investment projects by the various means, and shall particularly deal with the following:

- 1- To study and propose the plans for organising foreign investment and supervision of foreign investments in the country.
- 2- To receive the applications for investment of foreign capital and specifying their fulfillment of the legal conditions and economic feasibility study for the investment project and submit its recommendations to the Secretary.
- 3- To collect and publish information and prepare economic studies related to the possibilities of investment in the projects which would contribute to the economic development in the country.
- 4- To take the necessary measures for attracting foreign capital and promotion of investment opportunities by various means.
- 5- To recommend for exemption, facilities or other privileges for important projects for development of the national economy or recommend for renewal of exemptions and privileges mentioned in this law for another period and to submit its recommendations to the competent authority.
- 6- To consider the complaints / appeals or disputes presented thereto by the investors as a result of applying the provisions of this law without prejudice to the right of the investor to complain / appeal or litigation.
- 7- To study investment legislations and revise them from time to time, and to submit its proposals for development thereof to the competent body.
- 8- Any other functions entrusted thereto by General People's Committee.

#### **Article (7)**

The project is required to achieve all or part of the following:

- To produce commodities for export or contribute to increasing exports thereof or resulting in ending imports of commodities wholly or partly.
- To provide opportunities for employment of Libyan manpower and to train them for gaining technical skills and experiences. The executive regulation shall specify the terms and conditions for employment of national manpower.
- To use modern technology or trade mark or technical experience.
- To provide service for the national economy or contribute to improvement or development thereof.

- To lead to strengthening the ties and integration between existent economic activities and projects or reduction of production costs or contribute to providing materials and operation necessities thereof.
- To utilize or assist in utilising local raw materials.
- To contribute to development of remote economically underdeveloped areas.

#### **Article (8)**

Investment shall be allowed in the following fields:

- Industry
- Health
- Tourism
- Services
- Agriculture
- Any other field specified by a decision of the General People's Committee upon submission of the Secretary.

#### **Article (9)**

Licensees for investment of foreign capital shall be granted by the Board after issue of the decision for approval of the investment by the Secretary.

#### **Article (10)**

The projects established within the framework of this Law shall enjoy the following privileges:

- a) Exemption of Machinery, Equipment and tools necessary for executing the project from all customs duties and taxes and taxes of similar effect.
- b) Exemption of Equipment, Spare Parts and Raw Materials necessary for operation of the project from all customs duties and taxes imposed on import and other taxes of the same impact for a period of five years.
- c) Exemption of the project from income tax on its activity for a period of five years as from the date of starting production or work as per nature of the project. This period may be extended to an additional period of three years by decision of General People's Committee upon submission of the Secretary. The profits resulting from the project activity shall also enjoy such exemptions if reinvested.
- d) Exemption of goods orientated to export from production tax as well as from tax and fees imposed on export when exported.



- e) Exemption of the project from stamp duty tax imposed on Commercial documents and documents used thereby.

Exemptions mentioned in paras (a, b, d) hereof shall not include the fees imposed against services such as port, storage and handling fees.

### **Article (11)**

Machinery, equipment, tools, spare parts and raw materials imported for the purposes of the project shall not be disposed of by sale or abandonment unless by approval of the Board after payment of the Customs duties and taxes imposed on import thereof. It is not allowed to use them for other than the purpose for which the license was granted.

### **Article (12)**

- a) The investor has the right to re-export his invested capital in the following cases:
- Expiry of the project period.
  - Liquidation of the project.
  - Sale of the project wholly or partly.
  - Elapse of a period not less than (5) five years from the date of issue of permits for investment.
- b) Retransfer of foreign capital to abroad in the same manner as it was brought after expiry of six months from the date of entry thereof if difficulties or conditions beyond control of the investor prevent investment thereof.
- c) Net profits and benefits distributed and interests achieved by the project are allowed to be transferred annually abroad.
- d) The investor has the right to employ foreigners / whenever the national substitute is not available the foreign employees recruited from abroad shall have the right to transfer their salaries, wages and any other benefits or gratuities for them within the framework of the project to abroad.
- The executive regulations shall organize the terms and conditions for implementing the provisions of this Article.

### **Article (13)**

The investment project shall not be subject to the forms specified in prevailing legislations, nor subjected to registration procedures in the Commercial and Industrial Register and Importers and Exporters Register.

The executive regulation shall specify the legal forms of investment projects allowed for construction under the provisions of this Law, and the rules for



construction and procedures for registration in the Investment Register prepared for this purpose.

The investment project shall have autonomous status with independent financial commitment by mere registration thereof in the said Register <sup>(1)</sup>

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(1) Amended by Law No. (7) of 1371 PD (2003)

#### **Article (14)**

The project constructed in regional development areas or as would contribute to achieving food security or using equipment as would achieve savings in electric power / energy or water or environmental protection shall enjoy the exemptions indicated in paragraphs (b & c) of Article (10) of this Law for an additional period by decision of General People's Committee, upon submission of the Secretary. The executive regulations shall specify the conditions for considering the project as achieving these considerations.

#### **Article (15)**

In exception of the effective legislations related to ownership, the investor has the right to own land based on title of use and to rent it and construct buildings thereon and to own or rent the necessary real estate for construction or operation of the project under the terms and conditions specified in the executive regulations.

#### **Article (16)**

The investor shall have the right to open an account in transferable currencies with a Commercial Bank or the Libyan Arab Foreign Bank.

#### **Article (17)**

The ownership of the project may be transferred wholly or partly to another investor by consent of the Board. The new owner shall replace the previous owner regarding rights, duties and obligations thereon under the provisions of this law and other legislations applicable.

The executive regulation shall specify the terms and conditions for transfer of ownership.

**Article (18)**

If the foreign investor violates any provision of this Law or the executive regulations, he shall be notified by the Board for remedying the violation within the period specified in the notice / warning. If he does not respond thereto, the Secretary may upon recommendation of the Board carryout the following:

- Deprive the project of certain privileges specified in this Law.
- Obligate the investor to pay double amount of exemptions.

**Article (19)**

The permit issued for the project may be withdrawn or liquidate the project finally in the following cases:

- Failure to start the construction of the project or non-completion thereof under the rules and conditions specified by the executive regulations.
- Violation of the general rules / provisions of this Law or its executive regulations.
- Repetition of contraventions.

All in accordance with the procedures specified by the executive regulations.

**Article (20)**

The investor may complain / appeal in writing against any decision issued against him under Article (18) or (19) of this law or any disputes arising from applying the provisions of this Law, within (30) days from the date of informing him by registered letter with acknowledged receipt. The executive regulation shall specify the authority for appeal thereto and the appeal procedures.

**Article (21)**

The investor shall carry out the following:

- Keep regular books and records of accounts for the project.
- Prepare annual / balance sheet and profit and loss account, certified by a Chartered Accountant as per the conditions specified in Commercial Law.

**Article (22)**

The employees of the Board with the capacity of judicial Officers by decision of the Secretary shall have the power to control implementation of the provisions of this Law and unveil and record the violations, and to this effect they may inspect the projects and check the books and documents related to their activities.

#### **Article (23)**

The project shall not be nationalized, expropriated compulsorily acquired or confiscated or imposing guardianship conservation or freezing thereof or subjected to procedures having the same effect unless by law or judiciary verdict against a prompt, adequate and fair compensation, provided that such procedures shall be taken indiscriminately. Compensation shall be calculated on the basis of fair market value for the project in taking the procedure. The value of compensation is allowed for transfer in transferable currency within a period of one year at exchange rates prevailing at the time of transfer.

#### **Article (24)**

Any dispute arising between the foreign investor and the State, either by action of the investor or as a result of procedures taken against him by the State shall be presented to the competent Courts in the Great Jamahiriya, unless there is bilateral agreement between the Great Jamahiriya and the State to whom the investor belongs or multi-lateral agreements in which the Great Jamahiriya and the State of the investor are parties thereof, including provisions for conciliation, arbitration or special agreement between the investor and the State providing for arbitration clause.

#### **Article (25)**

Foreign investments existent under previous legislations at the time of issue of this law shall enjoy the privileges and exemptions indicated in its provisions.

#### **Article (26)**

The provisions of this Law shall not be applicable to foreign capital invested or to be invested in oil projects in accordance with the provisions of Law No. (25) of 1955 and its amendments .

#### **Article (27)**

The executive regulations for this Law shall be issued by decision of the General People's Committee upon submission of the Secretary.

#### **Article (28)**



Law No. (37) of 1968 regarding investment of foreign capital in Libya shall be repealed as well as any provision contravening the provisions of this law.

**Article (29)**

This law shall be published in the Official Gazette and the various information media and shall come into force as from the date of its publication in Official Gazette.

**The General People's Congress**

**Issued in Sirte on 9 March 1997**

**The Executive Regulations for Law No. (5) issued by Decision of General People's Committee No. (138) of 1372 PD (2004), as Amended by Decisions of General People's Committee No. (29) of 1373 PD (2005) and No. (117) of 1373 PD (2005)**

Decision of the General People's Committee No. (138) of 1372 PD (2004) for issuing the Executive Regulations for Law No. (5) of 1426 PB (1997) for Promotion of Investment of Foreign Capital.

***The General People's Committee,***

After perusal of the Commercial Law

Law No. (5) of 1426 PB (1997) as amended by Law No. (7) of 1371 PD (2003),

Law No. (1) of 1369 PD (2001) regarding People's Congresses and Committees, and its executive regulation,

Decision of the General People's Committee No. (1005) of 1991 for setting out an integrated development plan for certain regions,

Decision of the General People's Committee No. (94) of 1371 PD (2003) for transfer of attachment of General Productive Companies to Fund for supporting Local Industries,

Decision of the General People's Committee No. (20) of 1370 PD (2002) for reorganizing the Libyan Foreign Investment Board.

Decision of the General People's Committee No. (9) of 1372 PD (2004) for issuing the executive regulation for Law No. (5) of 1426 PB (1997) for promotion of investment of foreign capital, and

Acting upon submission of Secretary of the General People's Committee for Economy & Trade by his letter No. (5/1/1387) dated 13-05-2004 and,

Minutes of 2<sup>nd</sup> ordinary meeting of General People's Committee doe 1369 PD (2001), and

Decision of Secretariat of General People's Committee in its 22<sup>nd</sup> ordinary meeting for 1372 PD (2004)

***Do hereby decide***

**Article (1)**



The provisions of executive regulations for Law No. (5) of 1426 PB (1997), as amended by Law No. (7) of 1371 PD (2003) for promotion of investment of foreign capital, attached hereto, shall be applicable.

### **Article (2)**

Decision of the General People's Committee No. (9) of 1372 PD (2004) shall be superseded as well as any provision contrary to this decision.

### **Article (3)**

This decision shall come into force from the date of its issue and shall be published in the Procedures Encyclopedia.

Issued on 15 Jumadan El-Akhar 1372 PD  
Corresponding to 1-08-2004

**The Executive Regulations for Law No. (5) of 1426 PB (1997) as Amended by Law No.(7) of 1371 PD(2003) for Promotion of Investment of Foreign Capitals,**

## **Chapter One**

### **Fields of Investment and Consideration of the Relevant Applications**

#### **Article (1)**

#### **Specifying the Investment Fields and its Conditions**

Foreign Capital Investment shall be allowed for Libyan Arab citizens and nationals of Arab and foreign citizens in the fields of industry, health, tourism, agriculture, services in different kinds and other fields decided to be, added by the General People's Committee.

National capital possessed by normal personalities or legal personalities may participate foreign capital in investment in one of the following forms:-

- a. Cash Participation.
- b. In kind Participation.
- c. Reinvested part of project profits and returns.

Minimum value of investment project investment shall be (L.D. 5,000.000) Five million Libyan Dinars on conditioned that foreign capital cash participation shall be in an exchangeable currency.

In case of national capital participation in investment project with a percentage of (50%) fifty percent or more of project capital value, minimum value of investment project shall be (L.D. 2,000.000) Two million Libyan Dinars . National and foreign capital possessed by Libyan shall be excluded from the Minimum Condition.(1)

### **Article (2)**

#### **Estimation of Share in Kind**

If the invested capital contains a share in kind, it's cash value shall be estimated by consent of the parties of investment project.

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(1)Amended by decision of General People's Committee No. (86) of 1374 PD (2006).

### **Article (3)**

#### **Submission of Applications**

The Applications for investment shall be submitted by the person concerned or his representative to the Secretary of People's Committee for the Libyan Foreign Investment Board on a special Form, containing the following data:

- Applicant's name, nationality, legal status and main domicile
- General description of the project, indicating specifically the proposed field of investment, and the necessary period for construction thereof, and nature, amount and units of invested capital.

The Applications may be submitted through the Commercial Attaches in the Fraternity and People's Bureaus abroad or their deputies. Such bodies shall refer the applications immediately on submission thereof to the Board.

### **Article (4)**

#### **Documents Required for Investment**

The applicant shall enclose with his file the following documents:

- 1- Memo on the project indicating the following:
  - a) Value and nature of capital to be invested in the Great Jamahiriya, estimated in a transferable currency or equivalent in Libyan currency at the time of application.
  - b) Imported and local materials, if any to be used in the project.
  - c) Technical specifications of the project.
  - d) A time table specifying the investment project construction period.
  - e) Estimated national and foreign manpower for operation of the project.
- 2- Certificate of the investor's nationality, to be issued by the competent body in his country with respect to natural persons.
- 3- Up to date official extract from Commercial Register in the country of origin of the juridical person

The documents submitted for the project as indicated in paragraphs (2-3) shall be original and enclosed with translation into Arabic.

#### **Article (5)**

##### **Data to be Indicated in the Receipt**

The applicant shall be given a receipt for submission of the application, containing the following data: -

- 1- Number and date of submission of the application.
- 2- Applicant's name, surname, nationality and title/capacity.
- 3- Name & signature of the official who received the application
- 4- Description of documents enclosed with the application.
- 5- The proposed field of investment.



**Article (6)****Registration of Applications**

The applications shall be recorded on delivery to the Board in a special register in serial numbers as per the dates of receipt thereof. Each application shall be kept in a special file including all relevant documents, papers and correspondence.

The application number, name, address and nationality, of the applicant and project name and sector proposed for investment therein shall be inserted on the outside cover of the file, and from outside, the papers and documents included therein shall be indicated, as well as the serial number, dates, number of pages and date of submission thereof.

**Article (7)****Decision for Applications**

The People's Committee for the Board shall study the applications, and prepare the necessary recommendations and the relevant technical and administrative reports, indicating its opinion on the project, and services to the national economy, within a maximum period of (60) sixty days from the date of providing all documents required. The Board shall submit its proposal and

recommendations to the Secretary of General People's Committee for Economy and Trade for issuing the necessary decision.

### **Article (8)**

#### **Notification of the Applicant**

The Secretary of the People's Committee for the Board shall inform the applicant in writing by direct delivery or by registered letter of approval or rejection of the application of the investor by the Secretary, within ten days from the date of receipt by the Board of decision for approval or rejection or conditioned approval.

If approval is subject to a condition or more, the Secretary of People's Committee for the Board shall indicate that and inform the applicant for fulfilling the requirements within a specific period. However, In case of consent, the Board shall issue the necessary license for investment, in coordination with the competent bodies in the Great Jamahiriya .so that the licenses issued by board covers for all required licenses under the effective legislations .

### **Article (9)**

The investment project shall take any status as follows:

- 1- Joint-Stock companies
- 2- Companies with limited liability .

3- Branches of foreign companies

4- Individual project

It shall be registered with the Board under the procedures and rules indicated in this regulations. (1)

### **Article (10)**

#### **Establishment of Investment Register**

A special register shall be prepared in the Board, to be called (The Investment Register) for recording therein all the projects obtaining investment licenses from the Board. A special page in this register shall be allocated for each project, indicating the following data:

- 1- Name of project, investment field, project activity and its site and main domicile.
- 2- Project capital value and paid up capital.
- 3- Names of investors in the project and their nationalities, and their respective contribution value and percentage in the project capital.
- 4- Name, surname, title/capacity and nationality of the legal representative.
- 5- Number and date of the decision for permission of investment.
- 6- Number and date of the license for execution and performing activity of the project.
- 7- Investment capital costs of the project and sources of financing thereof.
- 8- Description of exemptions granted to the project and their validity period, and other facilities privileges, as well as description of contravention and penalties issued against the project.
- 9- Description of participation in kind and in cash included in capital formation.



10- Any other data related to the investment project.

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(1) Amended by decision of General People's Committee No. (29) of 1373 PD (2005).

### **Article (11)**

#### **Registration in the Investment Register**

The licensee shall submit to the Investment Register Office an application on the relevant Form prepared by the Board for recording him in the Register, together with the following documents: -

- 1- Memorandum & Articles of Association for the project which taking a status specified in Article (9) hereof or Memorandum & Articles of Association of mother company, if the project takes the form of branch for that Co., together with decision of Board of Directors for establishing the branch, and appointment of its General Manager and legal representative in the Great Jamahiriya.

If, however, the investor is a natural person, the data submitted thereby shall be sufficient for submission of the application for obtaining investment license.

- 2- Authorization document for function/power or power of attorney for management, as issued to the Project Manager or his legal representative, indicating clearly his powers & validity of authorization or power of attorney.
- 3- Specimen of signature of Project Manager or his representative in the Great Jamahiriya.
- 4- Certificate from relevant competent bodies, confirming bringing of the project capital or a part thereof into the Great Jamahiriya.

Registration in the Investment Register shall involve all legal effects of registration in the Commercial Register, including proof of juridical personality .

After providing all data and documents specified in this Article, the Investment Register Office shall issue to the person concerned a certificate proving his registration in the Investment Register in accordance with the Form prepared by the Board for this purpose.

**Article (12)**

**Granting Certificates and Extracts**

The Board shall grant the person concerned upon his request certificate or extract from the Commercial Register against payment of the specified fees.

**Chapter Two****Privileges & Exemptions****Article (13)****Right of Import and Exemption from Customs Duties and Taxes**

The investment project licensed for investment shall have the right to import the following:

- a) All project requirements and necessities from abroad whether in form of building materials, furniture, machinery, equipment, transports means or tools necessary for executing the project, to be exempted from Customs duties, taxes and taxes of similar effect.
- b) All project requirements and necessities from abroad in the form of equipment, spare parts or raw materials necessary for operation of the project, shall enjoy exemption from Customs duties and taxes and similar impact taxes for a period of five years, this period may be extended to further period of three years by a decision of Secretary of General People's Committee upon submission by the secretary of the General People's Committee of Economy and Trade.

The investment project shall enjoy exemptions indicated in paragraphs (a and b) of this Article under the following conditions:

- 1- The materials to be imported in the name and favour of the project.
- 2- The imported materials shall, in terms of quantity & quality, be compatible with the licensed investment field.
- 3- The investment license should be valid at the time of import.
- 4- Obligation to use such materials in the project and not to dispose thereof in any way to other bodies, unless a written permission is obtained from the Board.



In case of consent of the investor to sell such machinery, equipment or tools to another person uncovered by similar Customs duties exemption he has to pay the custom duty due which he had been previously exempted from.

#### **Article (14)**

##### **Right of Export and Exemption from Customs Duties and Taxes**

The investor may export his products outside the Great Jamahiriya, whenever he desires for that, whether raw materials, intermediary commodities or prepared for direct consumption commodities.

The export-oriented commodities shall if exported be exempted from production tax and all Custom, Duties and tax and similar, impact taxes imposed on exports.

#### **Article (15)**

The exemptions indicated in this regulations shall not include the fees against certain services such as port, storage and handling fees.

#### **Article (16)**

##### **Exemption from Income Tax**

- a) The investment project shall be exempted from income tax on its activity for a period of five years from the date of starting production or work as per the nature of the project . the project shall be considered starting production or work from the date of granting to it the license for operation. This period may be extended to further period of three years by a decision of the General People's Committee upon submission by the secretary of the General People's Committee of Economy and Trade.
- b) The profits accrued to the project shall also enjoy the exemptions specified in this Article if re-invested. The investor should provide the Board with decision for re-investment of the profits and their value in time.
- c) The investor shall be intitled to carry forward the loss incurred by his project during the exemption years to the subsequent years.

**Article (17)****Specifying the Projects Covered by****Exemption for Additional Period**

- 1- The project shall be considered as constructed in the regional development areas, if located in a region specified by General People's Committee.
- 2- The project shall be considered as contributing to achieving food security, if it would concentrate on production of the largest possible quantity of grains, cereals and utilisation of the cultivated areas, and development of animal wealth and its products or establishment of food industries depending on local raw materials.
- 3- The project shall be considered as achieving savings in energy / electricity or water or contributing to environmental protection, if depending wholly or partly on utilisation of solar energy or any kind of new or renewed energies or using irrigation reducing water consumption or depletion or using advanced machinery and equipment minimizing energy / electricity consumption and fuel or whose exhausts emanate lower rate of carbon, as would help in environmental protection.

The Board shall, upon request of the investor concerned, after ascertaining that the project is constructed in the regional development areas or contributing to achieving food security, submit recommendations to the People's Committee for the Board to extend the period of exemptions specified in Paragraph (b) of Article (13) and Paragraph (a) of Articles (16) hereof to another additional period. In case of approval, the matter shall be referred by the competent Secretary to the General People's Committee for issuing its necessary decision in this respect.(1)

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(1)Amended by decision of General People's Committee No. (29) of 1373 PD (2005).

**Article (18)****Exemption from Stamp Duty / Tax**

The investment project constructed under Law No. (5) of 1426 PB (1997) shall be exempted from stamp duty / tax imposed on Commercial writs and documents used thereby.

**Article (19)****Employment of Manpower**

The investor shall provide opportunities for work to the Libyan Manpower, and training thereof to gain the technical skills and experience.

The investor shall have the right to recruit and employ the necessary foreign technical manpower and expertise for construction and operation of the project, when the alternative nationals are unavailable.

The applications for recruitment and employment of foreign manpower shall be submitted on the relevant form.

An office to be established in the Board pertaining to the General People's Committee for Manpower, Training and Employment, to be responsible to grant permissions for recruitment and employment under the effective legislations, in coordination with Secretary of People's Committee of the Libyan Foreign Investment Board.

**Article (20)**

**The Transfers for Foreign Manpower in the Project**

The foreign employees recruited for work under written contracts in licensed investment projects shall be allowed to transfer their salaries and wages or any financial gratuities to them, after payment of any taxes or fees due thereon under the effective legislations.

**Article (21)**

**Right to Expand or Develop the Project**

The investor licensed to invest under the provisions of this regulations is intitled to expand or develop the project or introduce addition or amendment to certain relevant activities of the project .

The investor should provide the Board with memo indicating type and value of expansion, development or amendment, together with his relevant decision.

**Article (22)**

**Opening of Bank Accounts for the Investor**



The investor may, on issue of decision for approval of investment thereto, open Bank accounts in the name of the project with Commercial Banks operating in the Great Jamahiriya or the Libyan Arab Foreign Bank in local currency or other transferable currencies.

**Article (23)**

The investor participating with foreign capital shall have the right to transfer the net profits distributed and interests accrued by the project in the Great Jamahiriya, to abroad through the Bank where the project account is kept. The investor shall inform the Board accordingly in time.

**Article (24)**

**Ownership & Rent of Real Estates**

The investor shall be intitled to own lands based on title of use or rent them or construct buildings thereon, and has also right to own or rent buildings, under the following rules:

- 1- To be necessary for construction or operation of the project or housing of the employees therein.
- 2- The real estate shall be suitable for the purpose of which the ownership or lease required.
- 3- To obtain approval of the Board for purchase or rent.
- 4- The buildings or lands shall be prepared for the purpose of construction or operation of the project, and the use thereof shall not contravene the approved urban plans, and the selected site shall not cause damage to the environment or natural, resources or tourism or agricultur.

**Article (25)**

**Return of the Un-invested Capital**

The investor shall be allowed to re-transfer his un-invested foreign capital to abroad on the same manner as imported. The national investor shall be also allowed to return his capital under the following conditions:

- 1- Elapse of (6) six months from the date of transfer of the capital to be invested to the Great Jamahiriya, and not obtaining the necessary licenses and approvals for the project or start of construction thereof.
- 2- Inability of the investor to invest the capital, either due to being unable to obtain the necessary license for investment or for difficulties or circumstances beyond his control.

The application shall be submitted to the Board on the relevant Form attached with certificate from the Bank, in which the amount is deposited, indicating net amount deposited, and the reasons and conditions preventing investment and the supporting documents, if any. After approval of the application, the Board will address the Bank to retransfer the amount indicated in the application, under the procedures adopted in this respect.(1)

#### **Article (25) Repeated**

#### **Re-Transfer of Invested Capital**

The investor may re-transfer his capital in the Great Jamahiriya abroad, upon an application submitted thereby to Secretary of People's Committee for the Board, in any of the following cases:

- Expiry of the project period.
- Liquidation of the project.
- Sale of the project wholly or partly .
- Elapse of a period not less than (5) five years from the date of issue of the license for investment. The application shall be submitted on the Form prepared by the Board, together with the indicative documents.

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(1)Amended by decision of General People's Committee No. (29) of 1373 PD (2005).

Within a maximum period of two months from the date of acceptance of the Board of the application, the Secretary of People's Committee for the Board shall, in case of approval, address the Bank where the investors account is kept for finalising the procedures for transfer of the required amount to abroad.(1)

#### **Article (26)**

**Transfer of Ownership of Investment Project**

The project ownership may be transferred from one investor to another wholly or partly by sale or assignment.

The applicant for disposal of the project shall submit an application to Secretary of People's Committee, of the Board indicating full data on the project, date and number of decision for license, name and nationality of the assignee and data on his technical and financial capability and reasons for disposal / assignment, which shall be only effective after fulfilling the following conditions:

- 1- Approval of People's Committee for the Board.
- 2- Approval of all owners, in case of existence of more than one owner of the project. If the project is owned by a corporate body, the approval shall be made by the body specified on the Articles of Association thereof.

As to transfer of ownership by inheritance the new owner or his deputy shall bring certificate from the competent bodies in his country of origin proving that he or his Authoriser is the legal successor, to be attested by brotherhood or People's Bureau in that country or the Embassy sponsoring does not have Diplomatic or Consular representative therein.

- 3- Undertaking that the new owner shall replace the previous owner in rights duties therein under the provisions of law No. (5) of 1426 PB (1997) and other effective legislations.

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(1) Amended by decision of General People's Committee No. (29) of 1373 PD (2005).

The new owner shall fulfill technical and administrative experience and other conditions specified herein.



**Chapter Three****General Provisions****Article (27)****Obligations of the Investor**

The licensee for investment shall abide by the following: -

- 1- To start executing the project within six months from the date of informing him of approval for constructing the project under the provisions of this Regulations.

The People's Committee for the Board may for objective reasons permit, if necessary, extending this period for a further suitable period.

- 2- To implement the project in accordance to the application submitted on the basis of which the license was issued.
- 3- To keep accounting registers and books as specified in the Libyan Commercial Law, and to submit final accounts and balance sheet of the project to be certified by Auditor, Chartered Accountant annually to Tax Department and the Board.
- 4- To provide the Board with annual reports on the project activities and any expansions or developments thereof.
- 5- To give priority to national manpower, if the required qualifications for filling the posts or jobs required by the project are equal.

The People's Committee for the Board may raise a recommendation to the Secretary for withdrawing the decision for approval or canceling or liquidation of the project finally in any of the following cases:

- a) Non-completion of the project within the period specified in the license, and expiry of the additional period granted to the investor.
- b) If it transpires to the Board that the investor is not serious in implementing the project or incapable from financial or technical aspects for that.
- c) If the investor violate any obligation specified in this Article or contravenes any provisions of Law No. (5) of 1426 PB (1997) and this regulation.

The People's Committee for the Board shall notify the investor for necessity of completion of the project as per the specified time table under official notice thereto at the address indicated in the application for approval of the investment project.

In case of withdrawal of the decision, the investor shall sell the properties and lands he purchased for the project, and he may be claimed for removal of any constructions or additional on the lands permitted for use for the project purposes, and return it to original condition. The investor shall be informed thereof by registered letter with acknowledged receipt.

In withdrawal of the decision for any of these reasons, the investor shall pay the Customs duties and other fees on the imported machinery, equipment and transport means, from which he was exempted under the provision of the Law No. (5) of 1426 PB (1997), in case of disposal thereof by sale or assignment, without prejudice to any compensation, if necessary under the Law.

#### **Article (28)**

#### **Follow-up of the Projects**

The competent department in the Board shall follow-up the licensed investment projects, and prepares periodical reports, to be submitted to the People's Committee for the Board.

The employees of the Board having the capacity of Law Enforcement Officers shall perform their work in accordance to the law.

The other relevant Control and Inspection authorities shall coordinate with the Board, in case of performing inspection or control of the licensed investment projects.

**Article (29)**

**Liquidation of investment project**

The People's Committee for the Board may submit a recommendation to the Secretary of the General People's committee for Economy and Trade for liquidation of the investment project in any of the following cases:

- 1- Submission of application by the investor concerned, to be enclosed with approval of the extraordinary general assembly for liquidation of the investment project with respect to companies.
- 2- Loss of more than half capital of the project.
- 3- Expiry of the project period and non-submission of the investor for application for extending the approval or disapproval thereof.
- 4- Impossible continuity of the project for performing its activity.
- 5- Issue of decision for canceling the license.

In case of approval of the competent Secretary for the recommendation of the People's Committee for the Board, he shall issue a decision for liquidation. The investor shall appoint the liquidators of the project to prepare the liquidation balance sheet. If the investor does not appoint the liquidators within a period of three months from the date of issuing the decision for liquidators, the Secretary of People's Committee for the Board shall appoint the liquidators by



decision thereof, and the investor shall bear the fees of the liquidators and costs of liquidation procedures.

**Article (30)**

**Complaint / Appeal**

The investor may appeal against the administrative procedures and decisions issued against him in the following cases:

- Rejection of registration of the project in the Investment Register Office in the Board.
- Deprivation the project from certain privileges specified in the Law for promotion of investment of foreign capitals.
  
- Obligation of the investor to pay double exemptions.
  
- Issue of decision for withdrawal of the project or final liquidation thereof.
  
- Withdrawal of the license.

The complaint / appeal shall be submitted in writing to Secretary of People's Committee for the Board within thirty days from the date of informing the appellant of decision issued against him.

In case of non-reaching solution with the appellant, the Secretary of People's Committee for the Board shall refer the complaint / appeal, together with the opinion of the Board, to Secretary of General People's Committee for Economy and Commerce, within two weeks for considering it and issue of his decision within (15) days from the date of referring the appeal thereto.

The complaint / appeal to the Board shall not be prejudicial to the right of the investor to recourse to litigation.

**E N D**

**The General People's Committee**

**Issued on 15 Jumada El-Akhir 1372 PD**

**Corresponding to 1-8-2004**

## **Appendix 4: RECOMMENDATIONS**

The different economic sectors affect each other; therefore, economic reform should touch on all sectors. It is impossible to reform one sector, while the others suffered from lag. Thus for reform to be comprehensive it should reach the whole economy and not only reform the housing sector and neglect the rest of the economy.

Therefore, the first recommendation is that Libya should start reforming the Libyan economy; in a macro-plan to cover all economic sectors to benefit from each sectors effort.

As mentioned previously, this research deals with issues: how to treat the housing shortage; and how to attract foreign direct investment. So recommendations will be presented for each issue separately.

### **6.5.1 Recommendations to Reform the Housing Sector**

To reform the housing sector and solve the housing shortage in Libya, based on field study from interviewees' answers, studies, official reports, and legislation related to housing Libya, recommendations have been deduced as following:

- First of all legislation should be reformed to be suitable and allow the private sector to contribute to solve the housing shortage. Establishing new laws to encourage people and organisations to build houses for leasing, and give them facilities such as tax-free status for investors in the housing sector;
- The banking procedures need to be easier through banking system reform that helps to solve the housing shortage;
- Field study confirms that the urban plans have been stopped for more than two decades, and this has lead to increases in land prices due to the scarcity of suitable lands for building. This rare land makes constructions cost high. Therefore, Libya authorities should improve



urban planning departments and provide crowded cities with land at appropriate prices. New plans for urban areas should consider the current need from land to solve the shortage of housing and the preparation of land for future demands;

- Financing was a crucial issue in this research, as mentioned in chapter five previously, when the government was faced with financing problems to solve the housing shortage, they prevented the private sector to contribute, and the inefficiency of commercial banks made the problem worse. So Libyan authorities should promote new resources to finance the housing sector, encouragement legislation and offering an appropriate investment environment to attract local and foreign investors to finance housing projects;
- The Government should be playing its role to protect low-income families, and build housing units for these people. Governments can seek to achieve social targets which the private sectors do not care about;
- Overestimates of the local capacity of public and private builders in the implementation of housing projects must be rectified. Especially when the Libyan authorities relied on local companies that suffered from lack of experience and finance sources and this was one of the reasons that caused the housing shortage. Thus Libyan authorities should seek aid from people who have more experience and capability to finance huge projects;
- Establishing specialised organisations concerned to search and studying housing issues is required. This has the additional benefit that local academic staff and construction specialists can be trained by these organisations, and therefore could foresee strangulations, and find solutions;

- There should be no over-reliance on local building materials due to their scarcity, and imports can be utilised to eliminate shortages, end the black market and the provide these materials at reasonable prices;
- Libyan authorities can benefit from other societies experiences in construction to reduce building costs and introduce affordable houses;
- Commercial banks should be given more freedom to grant loans to private housing projects in partnership with investors;
- Administrative stability remains one of crucial reasons that affect the whole Libyan economy sectors, and housing is not an exemption, therefore, administrative stability should be provided to aid most economic problems, the housing shortage being one of them.

### **6.5.2 Recommendations to Attracting FDI**

Literature and questionnaire respondents illustrate the appropriate environment to attract foreign direct investment, and what a host country should do to attract FDI. Despite what Libya has done, its efforts are not sufficient. So, these are recommendations that Libyan authorities should follow to offer a suitable environment to attract FDI:

- Despite Libyan authorities establishing new laws to encourage foreign direct investment to invest in many sectors in the Libyan economy, and housing is one of them. These laws do not work sufficiently well yet. Therefore, The Libyan authorities must put these laws into practice and try to operate them efficiently;
- Libyan Authorities must ensure freedom of the transfer of capital to and from Libya. This makes investors more confident that they will be able to transfer their profits share;
- Currency exchange stability is required and hence the black market will disappear which will encourage foreign investors to take positive investment decisions;

- An adequate infrastructure is a necessary condition for attracting investment. Despite reforming some communications systems by developing mobile phones networks, other communication instruments are still poor. Transportations still suffer a lack and weakness. To attract FDI to Libya authorities should consider major infrastructure development;
- The Banking system plays an important role in capital movement. The banking sector in Libya suffers from domination of the Central Bank of Libya (CBL). On the other hand, the inefficiency of commercial banks, and their bureaucracy, makes a difficulty of the banking procedures which contributes to scare foreign investors from entry to the Libyan market. Accordingly, reforming the banking system has been recommended strongly in literature and by questionnaire respondents as a necessary step to attract FDI;
- Rampant administrative corruption and bribery are proliferate and amongst the of the most important factors expelling investment. Libya has recorded high rate in this phenomenon, consequently, Libyan society must be fought to eliminate the phenomenon to become worthy of attracting investment;
- Libya should introduce itself to the foreign investors to know what it did to attract foreign investment and what it prepared to achieve that. Therefore it should invite foreign investors to workshops about investment in Libya, and advertise in media world wide in different ways. Participating in conferences, symposiums, inside and outside of Libya to promotion for investment environment in Libya is also needed;
- A strong data base is necessary to make foreign investors know every single detail they want know about the country that they intend to invest in because this reduces their risk ratio;



- The difficulty of the procedure of retrieved licenses and official transactions, and required procedure of entry to the country is considered one of the obstacles to attracting foreign investment. The Libyan authorities must overcome these difficulties and facilitate entry procedures and improve the procedures to obtain the necessary permits to investors;
- Transparency has become one of the most important global standards, particularly in proving the validity of the investment climate. Libya is among the countries in arrears in this regard, therefore, the Libyan authorities must work quickly and accurately for the dissemination of accurate data that can be relied upon when making investment decisions;
- The facilities and exemptions (such as tax exemption and exemption from customs duty), that were not sufficient alone but are necessary to attract foreign direct investment, should be retained and increased if possible;
- The Libyan authorities must reform the Libyan economy at the macro level, and conduct reforms in all sectors in the form of parallel lines, so as not to waste effort without achieving the desired gains.

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