CAPITAL MARKET AND ACCOUNTING DISCLOSURE IN EMERGING ECONOMIES: THE CASE OF LIBYA

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This thesis is dedicated to my family

My mother, my wife, my kids

For their love and support

&

IN MEMORY OF MY FATHER,

ABDULLAH ELLABBAR (1921-2006)

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Declaration

This is to certify that the work contained in this thesis has never previously been submitted for a degree or any other qualification at Salford University or any other university;

To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

This thesis includes material that has been published as international refereed conference proceeding papers. The following is a list of publications of the candidate, which are direct products from this thesis:

- Ellabbar, K, and Eaton, D (2007), "An Analysis of Accounting Disclosure in the Annual Reports of Libyan and Egyptian Construction Companies", In *Proceedings of 7th International Postgraduate Research Conference*, 28–29 March, Salford, UK;
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Abbreviations

AAA	American Accounting Association
AMDB	Arab Monetary Data Base
AMF	Arab Monetary Fund
BSc	Bachelor of Science
C.B.L	The Central Bank of Libya
CPA	Certified Public Accountants
EAFE	Europe, Australia, and the Far East
GAAP	Generally Accepted Accounting Principles
GCC	Gulf Countries Council
GDP	Gross Domestic Product
GDRs	Global Depository Receipts
IASC	International Accounting Standards Committee
IFC	The International Finance Corporation
IFRS	International Financial Reporting Standards
L D	Libyan Dinar
LCC	The Libyan Commercial Code
LCPAU	Libyan Certified and Public Accountants Union
LFIB	The Libyan Foreign Investment Board
MSc	Master of Science
OPEC	Organization of the Petroleum Exporting Countries
PhD	Doctor of Philosophy
Prof	Professor
RCC	The Revolutionary Command Council
TSE	Tokyo Stock Exchange
UN	United Nations
UNDP	United Nations Development Programmes
WTO	World Trade Organisation

Glossary

Accounting	*The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of the information.*
Disclosure	*The provision of financial and non-financial information, on a regular basis, to those interested in the economic activities of an organization. The information is normally given in an annual report and accounts, which includes financial statements and other financial and non-financial information.*
Efficient Market Hypothesis	*A market in which prices always "fully reflect" available information is called "efficient"*
Emerging Economy	*A country is deemed 'emerging' if it located in a developing country and its per capita GDP falls below a certain hurdle that changes through time which in 1993 meant a per-Capita GNP of less than US$8,626.*
Financial Market	*A place where securities are created and transferred*
International Financial Reporting Standards	*A set of accounting standards issued by the International Accounting Standards Board stating how particular types of transactions and other events should be reflected in financial statements.*
Market Economy	*Is an Economic system in which the production and distribution of goods and services takes place through the mechanism of free markets guided by a free price system.*

The Capital Market and Accounting Disclosure in Emerging Economy Countries: the Case of Libya

Building a liberal economy requires fulfilling some major conditions that are necessary for its proper operation. In order to have a healthy economy there is a need to have a variety of financial markets, such as money and capital markets. The capital market consists of two main markets; the primary and the secondary markets. Libya, as one of the developing countries, has recently started taking many steps to achieving a Market Economy. Although, there are many successful factors in these new Libyan programmes, there are also many obstacles; the most important one is the absence of an efficient capital market because of the important role it plays in economic development. This research study explores and investigates the major barriers to a companies' ability to sell the issued shares for financing capital requirements. More specifically it is to answer the question *"To what extent is an efficient capital market needed in Libya?"* specifically focusing on accounting disclosure as one of the necessary success factors for an efficient capital market in Libya. The researcher is expecting the findings of this research to fulfil several objectives. Firstly, it will add to the existing limited literature in this area. Secondly, it may inform policy makers in the Libyan government. Moreover, the results of the study could be used as a source for Libyan government and companies. The thesis is presented in five chapters; Chapter one is an introductory chapter and provides the background to this study. The second chapter reviews in detail the main literature relevant to the research problem of this study. The third chapter presents the research methodology used in this study. The fourth chapter of this research highlights an empirical study. The fifth chapter concludes the thesis with summaries of the results and presents the conclusions, the limitations, and recommendations for further research.

Key words: Accounting, Capital Market, Construction Companies, Disclosure, Egypt, Libya.

CHAPTER 1

INTRODUCTION TO THE RESEARCH

CHAPTER 1: INTRODUCTION TO THE RESEARCH

This chapter is an introduction to the Capital Market and Accounting Disclosure in Emerging Economies: The Case of Libya. After a general overview of the thesis, this chapter provides the background to the study; it details the aspects that are investigated in the study, and presents the structure of the thesis.

The chapter is divided into the following parts:

- General background about Financial Markets and Accounting Disclosure;
- Some information about Libya and Libyan Economy Development;
- The Rationale for this study;
- The study aims and objectives;
- The Limitations of the research;
- The structure of the study.

1. 1 General Background

According to Blake (2000), every advanced financial system is composed of participants, securities, markets, trading arrangements and regulations. The Securities (sometimes called investment products) are traded in the financial markets by the participants (end-users, financial intermediaries and market-makers) by using the trading arrangements (types of orders received by brokers, types of account kept by investors and the kinds of stock borrowing agreements made by investors) under the regulations that confront the financial system . Any financial transaction creates securities, which are simultaneously a financial asset (to the holder) and a financial liability (to the issuer). It is possible to classify Securities in many ways. For example, classification according to: their issuer; their ownership; their income payments (Blake, 2000).

An organised financial market is a place where securities are created and transferred. Financial markets might be classified in a number of ways, such as, Money –v- Capital markets and Primary –v- Secondary markets. The money markets deal in securities with less than one year to maturity whereas the Capital Markets deal in securities with more than one year to maturity. The primary market is the new issues market. When an investment bank brings a new company to flotation, its shares are issued on the primary market. If this company subsequently decides to raise further finance by issuing bonds, these are sold on the primary market. Similarly, if a company decides to expand using either equity finance or bond finance, the additional shares or bonds are traded on the primary market. The secondary market is the market in which existing securities are subsequently traded.

1.1. 1 Financial Markets

Any market is expected to play an important and significant role in the process of economic and social development through the collection of individual and institutional savings and provide the required source of finance for existing and potential investors (Blake, 2000). The development of the capital markets is measured in a number of ways such as: the number of stock exchange listed companies; market capitalisation; intensity of the use of the securities markets; and also by the relationship between market capitalisation and GDP.

In recent years, a number of developing countries, associates with the International Finance Corporation (IFC) and the World Bank, have taken steps to establish capital markets. The volume traded in these markets has grown rapidly; in a number of cases, the market is already larger than in some developed European markets. In 1996 over 60 developing countries had stock markets compared with half that number in 1985. The emerging Capital Markets in approximately fifty countries are being monitored and reported on by the IFC (Blommestein, 1997).

The most common approach to improving the efficiency of any capital market depends on the availability of information to all investors at low transaction costs. Information should be conveyed to all interested parties so that they can behave in a way which permits securities prices to continuously adjust to any new information. In this respect, the disclosure of accounting information has a great impact on the behaviour of investors with respect to the buying and selling of stocks in the financial markets. In addition, reliable and timely accounting information has a significant role in facilitating, controlling and directing both private and public activities (Al-Mulhem, 1997). The relationship between capital markets and disclosure has been the subject of numerous studies. A number of researchers have identified the corporate annual report as the most important source of information to stakeholders. These studies will be examined in detail in chapter 2.

1.1. 2 Accounting Disclosure Definitions

According to a dictionary of accounting edited by R. Hussey, 1999:131, disclosure is defined as:

> *"The provision of financial and non-financial information, on a regular basis, to those interested in the economic activities of an organization. The information is normally given in an annual report and accounts, which includes financial statements and other financial and non-financial information. The annual report and accounts of a limited company is regulated by company legislation, accounting standards, and, in the case of a quoted company, by stock exchange regulations. "*

Hendriksen and Van Breeda (1992) pointed out that disclosure, as a broad concept, covers the whole area of financial reporting, including both financial statements and the additional financial information supplemented with them. Wolk et al. (2001) have defined the concept of disclosure in a broad sense as the information presented "in both the financial statements and supplementary communications, including footnotes, post-statement events, management's analysis of operations for the forthcoming year, financial and operating forecasts and additional financial statements covering segmental disclosure and extensions beyond historical costs". Choi (1973) gave an extensive definition of the disclosure concept. He stated that:

> *"The term disclosure can thus be thought of as the publication of any economic datum relating to a business enterprise, quantitative or otherwise, which facilitates the making of economic decisions. Economic data, in turn, includes facts which reduce the uncertainty concerning the outcomes of future economic events. Improved disclosure, for the present, can be thought of as the manifestation of an increase in both the quantity and quality of economic data disclosed by the enterprise-investor via its published financial reports."* (Choi, 1973:160)

From the above definitions, it can be noticed that the concept of disclosure covers a wide area. It goes beyond the annual reports to cover information outside the financial statements, such as discussion of competition, economic statistics, and analysis about the company. This tendency towards disclosure outside the financial statements was partly as the result of efforts by the accounting profession and the corporate reporting community to reduce their legal exposure, and partly in recognition of the deficiencies of the financial statements format for the purposes of communicating uncertain, interpretative and subjective data (Burton, 1981). Such outside information plays a great role in the global market place these days, but there is no agreed standard that rules measurement of these items of information (Hendriksen and Van Breeda, 1992).

1.1. 3 Disclosure and Stock Exchanges Requirements

Disclosure can be made in accordance with legislation, accounting standards, or it can be voluntary. Companies in their annual reports disclose information in financial statements and the notes thereto in accordance with formats, which in many countries are specified by law. They also disclose the accounting policies underlining these statements. Further information is disclosed in the UK in the directors' report and the chairman's statement.

Stock Exchanges around the world accept financial statements prepared according to Generally Accepted Accounting Principles (GAAP) or to their own domestic GAAP. They also accept accounts prepared according to International Accounting Standards (IASs) of for example: London, Paris, Frankfurt and Tokyo (Tarca, 2004).

By their nature, some industries need a special type of disclosure. Particularly, in the construction industry disclosure is characterised by high capital investment, an extensive and complex regulatory framework, high interest costs, and competition. The operations of companies in this industry focus on efficiency and safety. In addition, these construction companies face various risks including the availability of funds for repayment of borrowings, the availability of skilled labour and fluctuation of material costs and interest rates. Due to this, certain specific information should be included in the annual reports of construction companies to enhance comparability, to disclose capital expenditure and related financial arrangements and to highlight the risks associated with high gearing.

1. 2 Libya and Libyan Economy Development

1.2. 1 Libyan History

Libya is part of the Arab world which occupies a strategic geopolitical location in North Africa, as it links Eastern with Western Africa and Southern Europe with the rest of Africa. It occupies nearly 1,760,000 square kilometres (678,400 square miles) and is located along the Mediterranean coast of North Africa (with a coastline of approximately 1770 kilometres). It has a current population of almost six million (5,670,688 including 349,368 non-nationals in 2006 est. (GAIT, 2006)) most of them concentrated in the coastal strips of Tripolitania and Cyrenaica where most agricultural activity takes place. A large part of the Fezzan region in the south is part of the Sahara Desert. The Islamic religion and Arabic language are two elements that characterise Libyan culture (Alqadhafi, 2002).

The Berbers originally settled Libya, but Arabs invaded the territory in AD 642, bringing Islam to the region. Arabs ruled the territory now called Libya until the 1500's when it was invaded and controlled by many foreign occupiers, the last of which were the Ottoman Empire's long occupation (1551-1911) and European (Italian/ French/ British) occupations (1911-1951). Italy gained control of the area following World War I, setting up a new administrative system joining the country's three main regions. These regions were known as, Cyrenaica in the East, Tripolitania in the West (now known as Tripoli) and Fezzan in the South. During World War II, the best route for gaining independence as perceived by many locals (Libyans) was to support the Allied side. Accordingly, many locals fought with the British army. This action, coupled with Italy's defeat, led to a brief period of British and French administration (1943-1951) of the former Italian-controlled country after the war (Azema, 2000).

On the 21st of November 1949, the United Nations general assembly passed a resolution stating that Libya should become independent before the first of January 1952. On the 24th of December 1951, they proclaimed the United Kingdom of Libya as an independent state made up of the Fezzan, Tripolitania, and Cyrenaica provinces under the rule of King Idris I. The provinces had considerable autonomy until 1963 when their autonomy was abolished and the provinces placed under the control of the central government.

On 1st September 1969, military officers led by Col. Moamar al Gaddafi overthrew the King and took control of the government. The new regime; headed by a twelve-member directorate that was designated the Revolutionary Command Council (RCC); also formed the new government. In its initial proclamation on September the 1st, the RCC declared the country to be a free and sovereign State called the Libyan Arab Republic. Gaddafi was strongly influenced by the revolutionary ideas of the Egyptian leader Jamal Abdul Nasser. The new government proclaimed as its watchwords "Freedom, Socialism and Unity" following the Egyptian model. In line with its intended populist and socialist character, in 1977 the official name of the country changed to "The Great Socialist People's Libyan Arab Jamahiriya" (Saleh, 2001).

1.2. 2 Libyan Economy Development

In order to demonstrate the differentiation of economic growth in Libya, the period from independence of Libya (1951) is divided into four distinct periods.

Each one reflecting the salient features of economic growth in the country: the first period before the discovery of oil in 1959; the second period from 1959 until 1969; the third period from 1969 until 1986 and the current period starting in 1987.

The Economic Situation before the discovery of oil (before 1959)

Pre- 1959 Libya was one of the poorest countries in the world. The population was engaged in agriculture and animal husbandry. Italian expatriates controlled the few relatively large enterprises in the country. In contrast to neighbouring Algeria, Tunisia or Egypt, the colonial economy in Libya did not create clear domestic financial, commercial, capitalist or agriculture firms that had a close economic relationship with the colonial powers. Industries which had been established before the discovery of oil, mainly focused on processing the local agriculture products, which included flour, textiles, tobacco, footwear and clothing. The country's economy was suffering from a budget deficit and was based on the limited productivity of a primitive agricultural sector and a few small industries. It was American and British money, in return for the use of military bases in Libya, and aid from the UN and other organisations that helped the country to survive and overcome the economically severe years of the fifties.

The Economic Situation from 1959 until 1969

The Libyan economic situation changed after the discovery of oil in 1959 and the inflow of foreign capital. After 1959, the need for direct foreign subsidies declined as international oil companies began to invest in Libya. Investment in the oil industry brought surplus to the country's economy in general. During the period from independence (1951) to the revolution (1969), the Libyan economic system was mainly capitalist. Private ownership existed with minimum governmental interference. Public ownership was in sectors that required large-scale investment. The government initiated a number of measures to encourage competition and the establishment of private businesses. These included the issuance of import and export laws demanding that the importation of competitive foreign goods was subject to licence. The Industrial and Real Estate Bank of Libya; to provide loans to Libyan businessmen to build local industries; and the Industrial Research Centre; to help implement the country's development plans by providing technical and economic services to both the public and private sectors were established. Since the discovery of oil, the country changed from a gross national deficit to a surplus nation (Abusnina and Shameya, 1997).

The Economic Situation from 1969 until 1986

Following its Gaddafi revolution of 1969 the country changed from a capitalist to socialist nation. State intervention in the economy was increased and the government started to expand the public sector and cut back the private sector. The State ownership structure of businesses which started in the early 1970's, gained momentum in the mid-1970's, and reached its peak in the 1980's where most of the businesses became owned or controlled by the State. The State came to dominate all manufacturing activities, foreign and domestic retail trade, and banking and insurance services.

The Economic Situation from 1987

Following a period of relative isolation, the Libyan government began to move towards a more open and liberal regime from 1987.

Whilst the Libyan economy had been characterised by its central control and authoritarian policies, some private companies have emerged and started to operate in Libya in the 1990's. This was mainly due to the crises the Libyan economy had faced in the late 1980's and early 1990's as economic conditions and standards of living worsened as world oil prices slumped. In response to these crises, the State introduced a series of liberalisation measures which included a significant role for the priva0te sector.

1.2. 3 Libyan Economic Characteristics

The United Nations Development Programme (UNDP), in its Human Development Report, classified Libya as a medium-developed country, ranked 59th out of 162 countries in the human development index in 2001 also as 61st out of 175 in 2003 and 64th out of 159 in 2004 (UNDP, 2002 and 2006).

Table 1-1 illustrates key Libyan Economic Indicators including Libyan per Capita incomes in the years between 1970 and 2003. Generally, the per capita income increased rapidly until 1980 when it reached its peak. Then it slumped in 1990 due to the fall of world oil prices in the late 1980s.

Table 1-1 Key Economic and Monetary Indicator in Libya

Year		1970	1980	1990	2000	2004	2005
Population (In Thousand)		1,963	3,246	4,844	5,640	5,966	6,109
G.D.P in M.LD (At Current Prices)		1,288	10,554	7,750	17,620	41,577	54,538
G.D.P in M.LD (At Constant Prices 1997)		*	*	*	14,480	17,026	17,971
G.D.P in M.U.S.$		3,601	35,556	27,319	13,550	31,723	40,249
Per capita income (L.D)		656	3,251	1,600	3,124	6,756	8,927
Per capita income (M.U.S.$)		1,834	10,953	5,640	2,402	5,155	6,588
Exchange Rate	L D. / 1 U.S. $	2.796	3.369	3.525	0.769	0.763	0.738
	L D./ £1	1.170	1.448	1.978	0.417	0.430	0.428

Sources: Central Bank of Libya (1981, 1991, 2001 and 2005)

*The Central Bank of Libya did not publish Constant Prices data before 1997.

In general, the main five economic characteristics of the Libyan economy are:

- Heavy dependence on the exports of crude oil for export receipts and Government revenue; more than 97% of exports (see Table 1-2) and about 44 % of the GDP (see Table 1-3);
- A relatively small private sector and a tradition of strong public sector ownership of the means of production as a main driving force in the domestic economy;

- The limited availability of natural resources other than hydrocarbons and the natural water supply is scarce;
- The very low degree of self-sufficiency in most requirements except hydrocarbons;
- A limited domestic labour force and its low involvement in most basic production activities because of cultural and social mores and constraints.

Table 1-2 Trade Balance (**in Libyan Million Dinars**)

	1970	**1980**	**1990**	**2000**	**2003**	**2004**	**2005**
Exports & Re-exports	856	6,489	3,744	5,221	14,807	20,848	31,148
Oil Sector	841	6,486	3,535	4,992	14,052	20,077	NA
Oil Sector (%)	98.25	99.96	94.41	95.61	94.9	96.3	NA
Imports	263	3,070	2,145	1,911	5,598	8,255	7,954
Trade Balance	593	3,419	1,599	3,310	9,209	12,593	23,194

Sources: Central Bank of Libya (1981, 1991, 2001 and 2005)

Table 1-3 Libya Gross Domestic Products by Sector (%) (**At Current Prices)**

Sector	**1970**	**1980**	**1990**	**2000**	**2003**	**2004**	**2005**
Agriculture, Forestry & Fishing	2.6	2.2	5.1	9.6	8.8	3.5	2.9
Oil,& Natural Gas	63.6	62.3	37.4	30.2	30.9	65.5	70
Mining, Quarrying & Manufacturing Industry	1.8	2.5	8.5	5.8	6.6	2.8	2.5
Construction & Housing	11.4	12.4	9.8	7.8	7.0	5	4.4
Trade, Restaurant & Hotels	3.7	4.9	10.2	13.5	12.6	5.8	5.3
Transport& Communication	3.4	4	8.3	8.2	9.6	4	3.7
Banks & Insurance	1	2.3	3.7	3.3	2.4	1.2	1.1
Other Services	12.5	9.4	17.0	21.6	22.1	12.2	10.1

Sources: Central Bank of Libya (1981, 1991, 2001 and 2005)

1.2. 4 Libyan Economic Reforms

The Libyan economy suffers from many negative aspects; the Libyan government introduced a series of reforms in order to restructure the economic sectors to allow expanding the base of ownership and allow the direct participation of the private sector in economic activities.

From the beginning of the 1990's, the State issued a number of statutes, which regulated economic operations. This was started by its unification of the exchange rates, which stopped the informal market and smuggling of foreign currency. The next financially significant statute cancelled the requirement for Import and Export Licenses in order to facilitate for individuals, corporate bodies and companies to practice economic activities. This led to an improvement in the role of banks in economic activities and increased the size of the commercial operation and competition. In a bid to spur trade and make the country a free trade area, Libya lifted all duties (except for cigarettes) in August 2005 and these duties where replaced by a 4% tax called Service Import Taxes.

In more specific terms, the Secretariat of the General Peoples Congress (the Libyan Parliament) enacted, for example, the following Economic laws:

- Law 5, 1997 - Encouragement of Foreign Capital Investment (subsequently amended by Law 7, 2003);
- Law 9, 2000 - Regulation of Transit Commerce and Free Zones;
- Law 21, 2001 - Practice of Economic Activities for Individuals and Public Companies;
- Law 1, 2005 – Concerning Banking;
- Law 2, 2005 - Combating Money Laundering.

In addition, the General Peoples' Committee (the Libyan government) issued many Economic regulations, such as:

- GPC decision 178, 2001 - Organizing the work of agencies;
- GPC decision 2, 2002 - Organizing of Import and Export;
- GPC decision 21, 2002 - Organizing of Foreign Capital Investment;

- GPC decision 8, 2005 - Organizing the opening of representatives' offices for foreign companies in Libya;
- GPC decision 737, 2005 - Organizing arrangements of registration of branches and offices for representing foreign companies.

Libyan Privatisation Programmes

As in most developing countries, privatisation is a much-debated subject in Libya. However, while many developing countries have moved fast, despite such debates, to privatise state-owned enterprises, Libya has been relatively slow in privatisation. Further, laws and regulations covering privatisation will have to be enacted. If privatisation is to be attempted in the oil and gas sector -a stated priority- a new petroleum law that the government has been drafting for several years will also need to be finalised and passed (IMF, 2006).

In June 2003, in a speech to The Libyan People's General Conference "Libyan Parliament", Colonel Moamar Al-Gaddafi called for the wholesale privatisation of the country's vital oil and other industries, which were nationalised when he came to power from 1969. He said the public sector has failed and should transfer all sectors, including the oil industry; as the public sector needs people with a high level of expertise, patriotism, and unshakeable morality. In addition, he called for companies to be formed "which would not be the property of the state but of Libyans, who could call on foreign experts to help run them, in order to develop the oil industry, from prospecting to production and marketing." Similar measures should apply to the country's banks, airports, roads, and "other public enterprises. Gaddafi criticised the "irresponsibility" of civil servants, accusing the public sector of wasting billions of dollars and warning that the economy would collapse if it were maintained. Meanwhile, trade and economy minister Shukri Ghanem, (who has a PhD in Economics from the USA and worked at OPEC as acting secretary general & director of research division), has been appointed prime minister to start a new privatisation policy in all sectors (Alexander's Gas & Oil connections, 2003).

Although interest in investments in the oil and gas sectors would be high, these are also the areas in which there is the least economic pressure to privatise.

The National Oil Company (NOC) and its affiliates would tend to encourage maintaining rather than changing the status quo.

However, many of the public enterprises in other sectors, that could most benefit from privatisation, are unattractive to investors. The government agency so far tasked with privatisation and investment planning, the Foreign Investment Promotion Board has, for more than ten years, been soliciting investment in a range of industries in Libya, but with little success. Many of the factories are run-down and over-staffed. The Foreign Investment Promotion Board has recently published some of the country's agricultural projects for investment, including projects at Kufra, Sarir, and Wadi Barjuj (Indian Embassy, 2003), but these projects are widely perceived to have been expensive white elephants (Indian Embassy, 2003). Proposals to privatise Libya's banking sector have also been fruitless, principally because the banks mooted for privatisation are said to have high levels of non-performing loans (Indian Embassy, 2003).

Beyond these obstacles, privatisation will be hampered by the extensive red tape and bureaucratic practices that have become entrenched in Libya over the past three decades (IMF, 2006). In its efforts to attract foreign investment, the government has already taken some steps to reduce these barriers. The Libyan Foreign Investment Board (LFIB) is a government body formed in 1997 with the aim to attract and help foreign investors.

In 1987, the Libyan General Peoples Committee issued decision no. 447, concerning transfer of ownership of government plants to employees. That was the first step of the Libyan privatisation programmes.

In 1994, 145 plants were transferred to the private sector with immediate effect. In 1995 a further 295 plants had been transferred to the employees.

In October 2003, the government of Libya announced its intention to privatise a further 360 plants in the industrial and agricultural sectors (see Table 1-4). It executed this in three stages: The ownership of 260 factories were to be transferred from the public sector to the private sector immediately in the first stage (ended by the end of 2005). The second stage, including 46 factories, were to be privatised by the end of June 2007. The factories in these stages were transformed into shareholding companies in which employees and others are able to own shares. The third stage aims to privatise 54 factories during the period 2007/2008.

The government also decided (by the decision nr 313, for the year 2003) to exempt these privatised institutions from income and export taxes for five years. During the grace period, these factories will be able to import equipment and raw materials needed for their production without paying any fees.

Table 1-4 The Libyan Privatised Plants by Sectors

Sector	Phase 1	Phase 2	Phase 3	Total
Industrial sector	145	41	18	204
Agricultural sector	28	4	24	56
Animalism Fortune Sector	71	0	11	82
The Sea Fortune sector	16	1	1	18
Total	260	46	54	360

Source: The Libyan General Peoples Committee decision no (313) for the year 2003.

Libya and the World Trade Organisation (WTO)

Libya currently has observer Government status and looks forward to World Trade Organisation (WTO) membership with the aim of achieving diversification of its sources of income, economic development, the attainment of economic benefits, and the consolidation of good trade and economic relations with WTO member states, for the accomplishment of economic development for all. The desire of Libya towards WTO membership is important evidence that Libya is moving towards an open and free market, away from a state-controlled economy.

Libya first applied to become a WTO member in December 2001 - the latest Libyan application was received by the WTO on 10 June 2004. On 27 July 2004, WTO members agreed to commence talks with Libya on its membership bid and the General Council established a working party. It has not yet submitted a memorandum on the Foreign Trade Regime (WTO, 2006).

The WTO is the legal and institutional foundation of the multilateral trading system of member countries. It includes 148 countries, created in January 1995, with 76 original members then followed by a further 72 members joining in the following years. Any other state which would like to become a member of this organisation should be "on terms to be agreed" between the acceding government and the WTO (WTO agreement: article XII). Membership is not an automatic process because each accession working party takes decisions by consensus. All interested Members in the WTO should agree that their individual concerns have been met and that outstanding issues have been resolved in the course of their bilateral and multilateral negotiations.

Membership acquisition should be initiated with the submission of a formal written request for accession by the applicant government. This request is considered by the General Council which establishes a working party to examine the accession request and, ultimately, to submit the findings of the working party to the General Council for approval. Then, the government presents a memorandum covering all aspects of its trade and legal regime to the working party.

After examining all aspects of the existing trade and legal regimes of the acceding government, the working party goes into the substantive part of the multilateral negotiations involved in accessions. This determines the terms and conditions of entry for the applicant government. Terms and conditions include commitments to observe WTO rules and disciplines upon accession and transitional periods required to make any legislative or structural changes where necessary to implement these commitments.

Foreign Direct Investment in Libya

Since 1997, the Libyan government has pursued an increasing interest in foreign private investments. Law Nr. 5, 1997 and its amendment in 2003 by Law Nr. 7, 2003, offered many incentives and numerous guarantees to attract foreign business to take its part in realizing economic development in Libya.

The aims of this law specified by article 1 include: 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; and to achieve regional development. Foreign investment in Libya is allowed in the following fields: Industry; Health; Tourism; Services; and Agriculture (Law Nr. 5, 1997: Article 8).

The Libyan Foreign Investment Board (LFIB) is a government body establishment based on article 5 of Law 5, 1997. The LFIB is an independent autonomous body attached to General People's Committee for Economy and Trade which aims to attract and help foreign investors.

The LFIB granted approvals for construction of 220 projects from 1998 until 31.12.2006 in the various fields allowed for investment therein. The number of actual projects is 156 with total investment costs of DL 9,386 million includeing $ 6,184 million from foreign investors and DL 1,347 million from local investors (LFIB, 2007).

1.2. 5 Libyan Financial Sector

Libyan's financial sector is divided into banking and other financial institutions. The banking sector is composed of the Central Bank; commercial banks; and specialized banks.

The Central Bank of Libya (CBL) was established in 1951 and was originally called the Monetary Authority under supervision of the Ministry of Finance. However, in 1956 the Monetary Authority changed its name to the Central Bank of Libya (LBC, 2005).

The CBL is wholly owned by the state and represents the monetary authority and enjoys the status of an autonomous corporate body in Libya. The head office of the Central Bank is in Tripoli (capital city of Libya) and the bank has established three branches in Benghazi, Sabha and Sirte. At the end of 2006, the capital of the CBL is LD 500 million and the total assets recorded as LD 83.682 billion (CBL, 2006b).

The Libyan Banking law (Nr1, 2005) specified that the functions of the Central Bank shall be: issuing and regulating banknotes and coins; maintaining and stabilizing the Libyan currency; managing the official reserves of gold and foreign exchange; regulating the quantity, quality and cost of credit; acting as a supervisor to the commercial banks; acting as a banker and fiscal agent to the state and public entities; supervising foreign exchange; and advising the state on the formulation and implementation of financial and economic policy (Law Nr. 1, 2005: Article 5).

At the end of 2006, there were ten commercial banks in Libya including five public banks (National Trade Bank; Umma Bank; Gumhouria Bank; Sahara Bank; Wahda Bank); four private banks (The Bank of Commerce and Development; Alajma'a Alarabai Bank; Aman Bank; and Alwafa Bank) one mixed bank: (Regional Banking Corporation); and also twenty seven regional banks (CBL, 2006a)

The specialized banks include five banks owned fully by the state. They are the:

- Libyan Foreign Bank: deals with all international banking operations;
- Agricultural Bank: aims to provide financial facilities to people engaged in agriculture and animal activities particularly in the drought seasons;
- Development Bank: aims to provide loans to productive projects in the industrial, agriculture, and tourist sectors;
- Rural Bank: aims to improve the level of individuals incomes;
- Saving; Real Estate Investment Bank: aims to provide loans for building and buying houses for the citizens. (Alqadhafi, 2002).

Other financial institutions including: Libyan Stock Market; Libyan Social Security Fund; Foreign Exchange & Financial Services Company, three public investment companies (Libyan Arab African Investment Company; National Investments Company; Libyan Arab Foreign Investment Company); and one public insurance company: Libya Insurance Company and three private insurance companies (United Insurance Company; Africa Insurance Company; and Sahara Insurance Company) (CBL, 2006a).

1.2. 6 Libyan Construction Sector

The construction industry in Libya got its start after the discovery of oil in 1959. Since then, it has grown and played a prominent role in Libyan economic development, in accordance with the government construction projects called for in the successive Socio-Economic Development Plans (from 1963-1968 to 1981-1985 plan) (Ganus, 2001).

At the beginning of the 1970s, the government had set up several state-owned construction companies to carry out civil engineering projects. Later in 1975, the government began to reorganize the construction industry to make it more efficient. These reorganizes generally failed and the Libyan construction industry was still extremely inefficient.

During the 1980s, the cutbacks in development spending, together with the foreign worker exodus, led to a continuing decline in overall construction and damaged the construction industry was more than any other sector.

In 1992, severe economic sanctions and trade embargoes were placed by United Nations (UN) against Libya, because it was implicated in the downing of two civilian airliners. Libya after the lifting of the UN sanctions in 2003 opened of the oil and gas fields to international investors. This increased Libyan income from exports of oil and gas led to a major investment programme. Billions of dollars are to be invested in infrastructure projects and in the oil and gas industry, power generation, and many other projects which will provide significant opportunities for the construction market (Salama and Flanagan, 2005).

There are no major Libyan construction companies; whereas several foreign construction companies are active in Libya on major projects. Both foreign and local companies face a difficult regulatory environment in Libya (Porter, 2006). Porter (2006) stated that:

> *"Construction, more than any sector, is tied to the economic growth and development of a country. Without a strong construction cluster, other important Libyan national economic goals such as better infrastructure, increased supply of public housing and the development of tourism will not be achieved."* (Porter, 2006: 97)

1. 3 Rationale for this Study

Building a liberal economy requires fulfilling some major conditions that are necessary for its proper operation. In order to have a healthy economy there is a need to have a variety of financial markets (Al-Shayeb, 1999).

Libya, as one of the developing countries, has recently started taking many steps towards becoming a market economy. The path of transition from planned economy to market economy is not easy for any country, but there have been a number of similarities in the way in which other countries have gone through their transition to market economies. This allows the examination of how such economies develop and to learn what is needed to ensure it works smoothly for Libya. Although there are many success factors of the new Libyan programmes towards a market economy, there are also many obstacles; an important one is the absence of the capital market because of the important role it plays in economic development.

More specifically, the capital market in Libya is only a primary stock market. Therefore, private companies sell their shares through this market. However, most of these companies are unable to sell additional shares issued for financing further capital needs and as a result their short and long term investments opportunities are hindered. Such a situation increases the risk of private companies being made bankrupt. It could be perceived that this absence of a secondary market in Libya might constitute a major barrier for the private companies' ability to sell the issued shares (Bengarbiea, 1997).

The establishment of the first stock company in Libya goes back to its independence in 1951. When the Libyan Commercial Code (LCC) was enacted in the year 1953, it allowed trading of stocks. Historical and political circumstances meant that stock traders did not really have any significant impact until the 1990's, when a substantial increase in the number of stock companies occurred. Currently Libya, as with many other countries, has made remarkable progress in privatising their enterprises by transferring ownership from the State to private citizens. This has created a lot of new shareholders.

Libya needs to develop an efficient stock market and related institutions to handle the larger volumes of share trading that are likely to arise.

However, a number of Government laws have hampered the maturation of the stock market and its related institutions. For example, in July 2002, the Libyan General Peoples Committee (LGPC) issued decision no (49), concerning the executive regulations of the Law No (21) for the year 2001. The articles (48-50) of this decision allow the establishment of a stock market in Libya. Based on this decision and by decision no (242) for the year 2003, the LGPC committee gave the Libyan Central Bank the right to establish a stock market, but by decision no (105) for the year 2005 it cancelled that right and transferred responsibility to the Libyan General Peoples Committee for Economy and Trade. On 3rd June, 2006, the Libyan General Peoples Committee issued decision number (134) regarding the revised establishment of a stock market in Libya. These changes in policy are not conducive to effective market operations.

This research study will explore and investigate the major barriers to the companies' ability to sell the issued shares for financing the capital needed. More specifically it will try to answer the question "To what extent is an efficient capital market needed in Libya?" focusing on accounting disclosure as one of the successful factors towards an efficient capital market in Libya.

1. 4 The Study Aims and Objectives

This thesis addresses the question "***To what extent is an efficient capital market needed in Libya***". The aim is to contribute to the field of research that studies the emergence of capital markets. Therefore, it has the following objectives:

- To test the applicability of establishing a capital market in Libya;
- To investigate the obstacles toward establishing a capital market in Libya;
- To examine the problems that can arise in the absence of a capital market;
- To define the items of accounting disclosure needed in Libya;

- To test the quality of accounting disclosure in the companies' annual reports needed in Libya;
- To prepare an accounting disclosure index which will be used by Libyan companies;
- To examine the quantity of information presented by Libyan companies in its annual reports.

The researcher is expecting the findings of this research to fulfil several purposes. Firstly, it will add to the existing, yet limited literature in this area. Secondly, it may inform policy makers in the Libyan government. Moreover, the results of the study could be used as a source for Libyan companies and the government.

In order to achieve the main aims of the study, seven research questions have been designed. The following are questions that will be answered by this research:

Question 1: What forms of financial markets exist in Libya? If there are any, are they sufficient?

Question 2: What are the negative effects of the absence of a capital market in Libya?

Question 3: What roles will the capital market play in the Libyan economy?

Question 4: What is the applicability and obstacles to establishing a capital market in Libya?

Question 5: What is the level of Libyan companies' accounting disclosure?

Question 6: How can a special disclosure index be prepared for Libyan companies?

Question 7: Will the increased level of accounting disclosure be a success factor in establishing a capital market in Libya?

1. 5 The Limitations of the Study

The opportunity to explore and study capital markets and accounting disclosure in developing countries is wide open. As all research has limitations based on the scope of research, there are several limitations to this research study.

In particular, as follows is a list of limitations and recommendations for further research:

- This study has focused on financial disclosure in corporate annual reports. The annual report of a company is one source of a company's financial information available to the users of that information, but information can be provided by other disclosure channels which were not covered by this study;

- This study examined disclosure at one point in time, whereas disclosure grows over time. The problems regarding financial disclosure that are considered important in this study might not have been considered as important in the past or in the future;

- Although most of the user groups of financial statements were surveyed through the use of a questionnaire, this made any possible non-response bias on the part of users difficult to assess;

- The investigation of the level of financial disclosure contained in this study included the Libyan private construction sector and excluded government owned companies;

- This study was done in the absence of a stock market in Libya; it might be expected that different results will be given if this study is repeated after the Libyan stock market opens;

- The comparative part of this study included a comparison with Egyptian construction companies only;

- This study was limited to the accounts of Libyan construction companies. The accounting disclosure index was tested only in the construction sector.

Despite the fact that it is recognised that this study has some limitations, it is believed that the findings of this study provide a useful insight into the capital markets and the accounting disclosure practices in Libya and provide a starting point for future research.

1. 6 The Structure of the Study

The thesis is presented in five chapters; Figure 1-1 shows the thesis structure.

- **Chapter one:** this is an introductory chapter and provides the background study. It gives a general overview of the thesis, details the aspects that are investigated in the study, and gives a logical structure to the thesis.

- **Chapter two:** reviews in detail the main literature relevant to the research problem of this study. A detailed review of the literature assists in providing a framework for the empirical study, discovering results from previous research on the general problem, and finding an appropriate research methodology and procedure to investigate the problem. Specifically, this chapter includes the following sections: Arab Capital Markets; Emerging Capital Markets and Economic Growth; Information and Efficient Capital Markets Studies; International Financial Reporting Standards; Financial Reporting and Disclosure Practices; The accounting profession and disclosure requirements in Libya.

- **Chapter three:** presents the research methodology used in this study. This will cover the philosophy of research methodology, research data collecting methods, and target community and sampling companies and groups.

- **Chapter four:** presents the empirical study. The empirical review is sub-divided into two parts; part one reviews the data collected about the capital market in Libya, and the second part provides the collected data related to accounting disclosure.

- **Chapter five:** concludes the thesis with the analysis and summaries of the results and presents the conclusions, the limitations, and recommendations for further research.

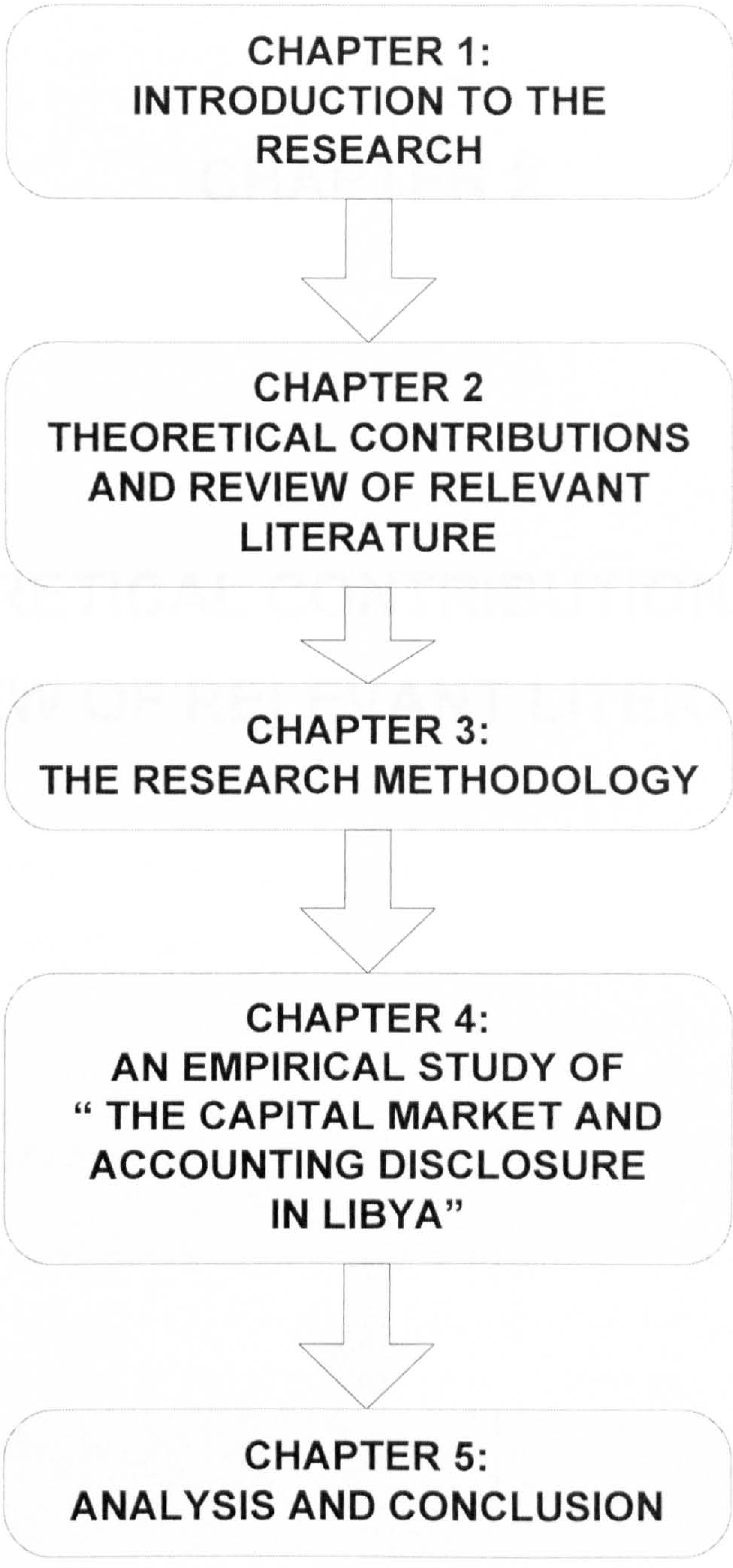


Figure 1- 1: Thesis Structure

CHAPTER 2

THEORETICAL CONTRIBUTIONS AND REVIEW OF RELEVANT LITERATURE

CHAPTER 2: THEORETICAL CONTRIBUTIONS AND REVIEW OF RELEVANT LITERATURE

This chapter reviews in detail the main literature relevant to the research problem of this study. A detailed review of the literature assists in providing a framework for the empirical study, discovering results from previous research on the general problem, and finding an appropriate research methodology and procedure to investigate the problem.

Specifically, this chapter includes seven parts: each part provides a review of studies that relate to themes relevant to the main subject, as follows:

- Part1: Arab Capital Markets;
- Part 2: Emerging Capital Markets and Economic Growth;
- Part 3: Information and Efficient Capital Markets;
- Part 4: International Financial Reporting Standards;
- Part 5: Financial Reporting and Disclosure Practices;
- Part 6: The accounting profession and disclosure requirements in Libya;
- Summary.

2. 1 Arab Capital Markets

The Arab stock markets are still less active and smaller than the average of other developing countries'. In 2001, Arab market capitalisation to GDP averaged 26% whereas it was 33% for other developing countries and the turnover ratios averaged 6% and 20% respectively. Only six Arab countries have firms listed in the IFC index, including; Jordan (since 1978), Egypt Bahrain, Oman, Saudi Arabia, and Tunisia (all since the 1990's) (Bolbol and Omran, 2004).

The Arab world stretches across more than eleven million square kilometers (about four million square miles) of North Africa and part of western Asia. It comprises of twenty two countries which have a population of more than three hundred million people and their combined economies surpass $1 trillion annually. The majority of people in Arab countries professes Islam and speaks the Arabic language.

The Arab League is a political organization intended to encompass the Arab world. Its permanent headquarters are located in Cairo, Egypt.

All Arab Countries are members of the Arab Monetary Fund (AMF) which is a regional Arab organisation. It was founded in 1976 and started operations in 1977 aimed at contributing to the achievement of many objectives. One of these is to promote the development of Arab financial markets.

The support and backing of the AMF for the economic reforms pursued in Arab countries has strengthened the recognition that Arab capital markets play an important role in the global economic development process.

Arab countries have been paying greater attention to capital markets as sources and indicators of economic development. This concentrates on different factors. For example: the need for economic constancy which encourages investments; an effective capital market is inevitable to reduce the fluctuations of oil prices; the need for removing investment barriers and restrictions to integrate these markets into international capital markets. In addition the portfolio capital inflows to Arab countries by which foreign investors transfer their investments to these markets to reduce risk to their portfolios (Al-Shayeb, 1999).

The role of these markets in meeting financing requirements gained additional importance with the increased reliance, by a growing number of member countries, on market forces in resource allocation and greater participation of the private sector in economic activity (AMF, 2003).

The first aspect of the AMF's support to member countries' efforts consisted of the assistance it provided in the formulation of policies for developing these markets within the broader framework of their comprehensive economic adjustment programs. A second aspect related to the technical assistance, which the AMF extends to specifically assist in establishing and developing some markets of these countries. Another aspect was accorded more attention in the context of programs approved by the AMF under the Structural

Adjustment Facility involving the reform of the financial and banking sectors in member countries.

As a result, the Arab capital markets witnessed remarkable developments in their various aspects, including the legal and organizational levels, thereby contributing to their foundation of sound structures, which are constantly evolving. Specifically, these developments involved: an improvement in the performance of capital markets; a strengthening of their supervision; and increased trading on their floors. They also related to: amendments of tax systems; streamlining of administrative procedures; the creation of a favorable environment suited to the requirements of market actors; the introduction of new financial instruments offering a greater variety of investment opportunities; the acceleration and simplification of trading operations; and the promotion of transparency and disclosure. Added to these was the improvement in skills of operating staff and enhanced discipline and professional ethics (AMF, 2003).

In most Arab countries, fifteen of the twenty-two countries, there are stock exchanges. Each of these countries has one market except for two countries; the Union of Arab Emirates and Egypt which both have two markets. Five Arab countries did not have official capital markets until the end of 2005. These are Comoros, Djibouti, Mauritania, Somalia and Yemen. Libya and Syria issued new laws in 2006, which will allow the establishment of capital markets in the near future.

Table (2.1) provides information and indicators about Arab capital markets. As can be seen from this table, it can be observed that:

- All Arab markets are emerging markets and most markets started operating during the last two decades (1980s and 1990s);
- All markets are part of the Arab Data Base of the Arab Monetary Fund except the Iraq market. As a result data is not available for this market;
- The largest number of listed companies is on the Egyptian markets, where there are 744 companies out of the 1665 companies listed in all Arab markets (more than 40%);

Table 2-1 Arab Stock Markets: Summary Information and Indicators

At the End of 2005

Country	Market Name	Web Site	Established Year	Number of Listed companies	Market capitalisation		Shares Traded	
					Million US$	% *	Million shares	Million US$
Algeria	Algeria Stock Exchange	www.cosob.org/	1996	3	91	0.01	N/A	N/A
Bahrain	Bahrain Stock Exchange	www.bahrainstock.com	1989	47	17,364	1.35	458	711
Egypt	Cairo& Alexandria Stock Exchanges	www.egyptse.com	1992	744	79,508	6.16	5,310	27,720
Iraq	IRAQ Stock Exchange	www.isx-iq.net/	1991	85	N/A	N/A	3,572	N/A
Jordan	Amman Stock Exchange	www.ammanstockex.com	1976	201	37,639	2.92	2,583	23,806
Kuwait	Kuwait Stock Exchange	www.kuwaitse.com	1977	156	123,893	9.61	52,201	97,290
Lebanon	Beirut Stock Exchange	www.bse.com.lb	1920	15	4,917	0.38	90	923
Morocco	Casablanca Stock Exchange	www.casablanca-bourse.com	1929	54	27,274	2.11	439	7,859
Oman	Muscat Stock Exchange	www.msm.gov.om	1988	125	12,062	0.94	452	3,320
Palestine	Palestine Stock Exchange	www.p-s-e.com	1995	28	3,157	0.24	369	1,490
Qatar	Doha Stock Exchange	www.dsm.com.qa	1959	32	87,143	6.76	1,033	28,252
Saudi Arabia	Saudi Stock Exchange	www.tadawul.com.sa	1990	77	646,121	50.10	12,281	1,103,583
Sudan	Khartoum Stock Exchange	www.khartoumstock.com		49	3,242	0.25	1,731	504
Tunisia	Tunis Stock Exchange	www.bvmt.com.tn	1989	45	2,821	0.22	41	529
United Emirates	Abu Dhabi Stock Exchange	www.adsm.ae	2000	59	132,413	10.27	8,317	28,506
	Dubai Financial Market	www.dfm.co.ae	2000	30	111,993	8.68	25,542	110,304
			Total	1665	1,289,638	100	110,847	1,434,799

Source: Arab Monetary Fund, Arab Markets Data Base (2005)

* Relative market capitalisation to all markets - N/A Not Available

- The Saudi Arabian market is the largest and has more than 50% of the capitalisation of all Arab markets. This is followed by the Abu Dhabi Stock Exchange (10.27%) then the Kuwait Stock Exchange (9.61%), the Dubai Financial Market (8.68%), the Doha Stock Exchange (6.76%) and the Cairo & Alexandria Stock Exchanges (6.16%). The rest of the Arab markets have less than 15 % in total.

The Arabic capital markets have many similarities. They are similar in terms of type of investors, their size and structure. Additionally, some of these markets also have similarities based on the region in which they are located, for instance North African markets (include Morocco, Tunisia, Egypt and Algeria) and Gulf Countries Council markets (include Saudi Arabia, Kuwait, United Arab Emirates, Oman, Bahrain and Qatar).

On the other hand, there are some differences between the Arab markets. One of the important differences is attracting foreign investments in securities and other financial papers. The Arab Markets can be divided into two groups; the first group comprises markets that do not impose any restrictions on foreign investments; these include; Egypt; Morocco; Jordan; Algeria, and Lebanon. Whereas the second group includes countries where such restrictions exist to varying degrees: these are Tunisia; Saudi Arabia; Bahrain; Qatar; Kuwait; and The United Arab Emirates.

For example, Tunisia allows foreign investors to own up to 50% of shares. In Saudi Arabia and Kuwait, foreigner investors are allowed to invest in shares through investment funds. The United Arab Emirates allows foreign investment through similar funds and to restrict ownership to less than 50% of shares of companies. In Oman, foreign investment in newly listed companies of up to 49% and in the case of certain other companies up to 100 percent. In Bahrain, Gulf Countries Council (GCC) nationals can own unlimited shares. Qatar also allows GCC citizens to own a maximum of 25% of shares.

The remainder of this part will focus on the five largest Arab markets (namely Saudi Arabia, Kuwait, Doha, Amman and Cairo & Alexandria Stock Exchanges).

2.1.1 Saudi Stock Market

The Saudi stock market is the largest market in the Arab world with a market value exceeding six hundred billion US$ on 31.12. 2005. The origins of this market can be traced back to 1934 when the first shareholding company was incorporated (the Arabian Automobile company). This company was followed by a number of incorporations in 1954, creating four companies with a capital of 943 million Saudi Riyals (about £136 million). The emergence of these shareholding companies was accelerated in the 1960s and reached 17 shareholding companies with capital of 2,955 million Saudi Riyals (about £426 million).

In the late 1970s, a new trend emerged; shares being traded in an unofficial manner. This trend was attributed to an increase in public awareness, the growth in oil revenues and the emergence of other official markets in the region. Accordingly, this led to the existence of unlicensed brokers' firms.

However, the existence of broker firms without a regulatory framework led to share price bias and illegal violations. Moreover, the collapse of the Al- Manak market in Kuwait in 1982 encouraged the Saudi government to regulate the stock market. It issued Royal Decree (1320/8, 1983). This decree provided the necessary framework for stock market activities through the local bank as a first phase of organising the Saudi market.

The new Electronic Securities Information System, which replaced the Share Negotiation System, was implemented in 1990. This new system allowed market deals to be more easily processed and helped to provide more accurate information. The Saudi market relies on this electronic system throughout almost four hundred bank branches in Saudi Arabia.

The Saudi government allows different instruments to be traded but the financial securities currently being traded are shares and government bonds. These are issued by the Saudi Central Bank and are sold to local banks that sell them to the public. The regulations in Saudi allow its citizens to own any percentage holding of its shareholding companies, except the investment funds where the maximum ownership allowed is five percent for any Gulf Council Countries (GCC) citizen. Citizens are allowed to invest in particular and limited shareholding companies in accordance with the GCC summit decision in 1994 (Al- Shayeb, 1999).

2.1.2 Kuwait Stock Exchange

In 1952, the National Bank of Kuwait was established as the first Kuwaiti shareholding company. Then the sequence of shareholding incorporations continued into the 1970s to reach twenty-one shareholding companies. However, trade in the unofficial Kuwaiti stock market in 1977 led to flaws in the system being exposed and a tremendous increase in broker numbers and share prices. This led the government to intervene. The Kuwaiti government enforced regulatory rules that resulted in re-organisation of the Kuwaiti stock market. Accordingly, some market players turned to the GCC to establish new Gulf shareholding companies, particularly in the U.A.E and Bahrain where the law allowed such activities, and Gulf shareholding shares were traded in the Kuwaiti Al-Manak market.

However, this market suffered from the absence of government regulations. Trade in this market led to astronomical share price increases running contrary to the companies' actual performance. Moreover, investors and brokers took self-interested advantage of the yielded profits while harming the market through forward transactions. In 1982, the Al-Manak market collapsed due to the traders' failure to clear their positions because of heavy forward sales and transactions. The consequences of the Al-Manak crisis were extremely destructive to the Kuwaiti national economy, the Kuwait official stock market, and neighbour countries where the Gulf shareholding companies operated, particularly the U.A.E and Bahrain.

The Al-Manak crisis led the government to enact new legislation in 1983. This was aimed at regulating the Kuwaiti stock market. An independent committee was authorised to manage and to regulate the market activities. This consisted of the Minister of Commerce and Industry as a Chairman and other members from Government ministries.

Kuwaiti stock market regulations allow different securities to be traded: bonds; commercial papers; bank drafts; treasury bills; shares of shareholding companies; closed shareholding companies; and Gulf shareholding companies. Moreover, market regulations allow GCC citizens to trade on the stock exchange, while non-GCC citizens are allowed to invest indirectly through investment in mutual funds registered on the stock market (Al- Shayeb, 1999).

2.1.3 Doha Securities Market

Although Qatar is a small country, its location has been an important factor in attracting companies, investors and foreign banks to open their branches to finance the export and import trade.

In 1995, Law number 14 established the official Doha Securities Market. However, official operations of the market only started in May 1997. The administration of activities on the Securities Market is governed by the "Market Committee", comprising of eleven members appointed by the Council of Ministers and recommended by the Minister of Economy and Commerce. The establishment of the Doha Securities Market was one of the most important steps aimed at consolidating the financial and economic structure of the country. The market was officially opened with 17 listed companies and market capitalisation was at around six billion Qatari Riyals (about £852 million). Recently market capitalization reached about 317 billion Qatari Riyals (about US$ 80 billion) at the end of year 2005 and the listed number increased to 32 companies, which include stocks in banking, insurance, services and industry sectors.

A New Mutual Funds Law (25, 2002) was issued in August 2002, which allows non-Qataris to invest in the market through the medium of mutual funds. Gulf Countries Council citizens are allowed to own up to 25% of market listed shares, with the exception of the banking and insurance sectors. In 2006, the Emir of Qatar ratified a law allowing foreign investors to trade on the Qatari Bourse subject to a restriction of a maximum of 25 per cent ownership of the issued capital of a listed firm.

2.1.4 Amman Stock Exchange

The Arab Bank was the first public shareholding company established in 1930, followed by Jordan Tobacco and Cigarettes, and then by Jordan Electric Power also in the 1930s. Public shareholding companies traded their shares in non-specialized offices long before the setting up of the formal Securities Market. Because of this unorganized securities market, the government and the Central Bank conducted intensive studies and started to prepare an organized securities market in cooperation with the World Bank and the International Finance Corporation (IFC).

The Amman Financial Market was established as a non-profit institution with administrative and financial autonomy based on law (31, 1976). It started its operation on the 1st of January 1978. The exchange is governed by a seven-member board of directors. A chief executive officer oversees day-to-day responsibilities and reports to the board. Market membership is comprised of Jordan's brokerage firms.

The Amman Financial Market was renamed the Amman Stock Exchange (ASE) and a full reform of the capital market was introduced in 1999 as part of a broader economic long-term effort to improve living standards. Under International Monetary Fund (IMF) scrutiny, Jordan has been practising a more careful monetary policy and implementing changes toward privatization, including liberalizing trade regimes to improve productivity and foreign investment.

In June 2000, the ASE started the implementation of the new Electronic Trading System, which meant the end of the manual trading system. This can be considered a qualitative leap for the market because it provides more transparency and safety for both investors and traders by entering all the orders into the computers, matching supply and demand for securities, and electronically setting and applying prices.

Since its formation, the market has experienced some growth in a number of aspects. For example, the number of listed companies has increased from 66 in 1978 to more than 200 companies in 2006 Also, market capitalization has increased from JD 286 million (about £210 million) at the end of 1978 to around JD26 billion (about £19 billion) in 2006.

2.1.5 Cairo & Alexandria Stock Exchanges

Historically, the Egyptian stock market was established as two stock markets in Alexandria in 1888 and Cairo 1903. They merged a few years later. The stock market folded in 1961, following the state-sanctioned demise of Egypt's private sector, having reached its historic peak in the 1940's, when it constituted the fifth largest market in the world.

After several decades of low market activity (between 1961 and 1991), in 1992 the stock market started to grow again spurred by economic reforms, privatisation, and changes in the regulatory environment. It now maintains trading floors in the cities of Alexandria and Cairo, and securities are automatically listed on both floors with listing fees divided between both cities. Listed companies are eligible for a tax exemption equivalent to the three months deposit rate paid by the Central Bank on paid up capital. To remain listed, there must be at least one trade every six months.

The Egyptian stock market is governed by the following laws; the Companies Law (159/1981), the Privatisation Law (203/1991), the Capital Market Law (95/1992), the Investment Law (8/1997), and the Central Depository Law (93/2000) (Azab, 2002).

Since 1996, the International Finance Corporation (IFC), Morgan Stanley, and Standard & Poor's have added Egypt to their emerging market indexes, while

ING Barings and EFG Hermes have created country indexes for Egypt. Nine Egypt listed companies are traded abroad through Global Depository Receipts (GDRs); eight in London and one in Luxembourg.

The number of listed companies in the Egyptian capital market rose from 676 companies in 1995 to 1150 at the end of 2002, when it reached its peak. Then it decreased to 792 companies in December 2004. Market capitalization increased from US$8,074 million in 1995 to US$38,077 million in 2004. In 2006 it commenced with 744 listed companies and capitalization of US$27.7 million.

2. 2 Emerging Capital Markets and Economic Growth

This part reviews the major issues in the relationship between the emerging market development and economic growth in the economic literature. This literature review evaluates and addresses the ability of the current economic frameworks to provide a comprehensive framework able to address the maturation of the capital market in Libya.

2.2. 1 Emerging Markets Defined

There is no universally accepted definition of emerging markets because these markets vary widely in their structure, performance, prospects and principal features. For these reasons, they offer a rich set of environments in which to study important financial issues.

Parker (1992) defines emerging markets as those with an active stock exchange which is not enough or not accessible enough to be included in the IFC's EAFE (Europe, Australia, and the Far East) index. However, generally investors have tended to focus their attention on a more narrow definition that emphasizes those developing countries in which capital markets are advancing in size, activity, or sophistication.

On the other hand, the International Finance Corporation (IFC) suggests some attributes to qualify a market as emerging. Firstly, the market must be located in a developing country; it follows the World Bank's guidelines that a developing country is one with low-middle income, which in 1993 meant a per-Capita GNP of less than US$8,626. Secondly, the market has a high degree of contribution of the stock exchange market to the total national financial system that can be measured by the market capitalization ratio. Thirdly, it has a high degree of dynamism of the market that can be measured by its liquidity.

There is an inevitable overlap between markets identified as "emerging" and those defined as "developed". For example, the IFC classifies as "emerging" the markets of Taiwan, Malaysia, Thailand and Korea all of which have a market capitalisation in excess of US$100 billion and it classified as "developed", European markets such as, Belgium and Denmark with capitalisation less than US$100 billion at the end of 1994. For example, Italy, one of the Group of Seven nations, had a smaller market capitalisation in 1994 than any of the Taiwan, Malaysian, and Korean "emerging" markets. Thus some emerging markets can be significant in size (Poshakwale, 1997).

Derrabi and Leseure (2005) stated that an analysis of the evolution of some emerging markets revealed four distinct stages: Embryonic phase, Low activity phase, Active phase and Maturity phase.

In this context, Khambata (2000) categorizes the emerging markets into four groups:

First Group: market at an early stage of development with few quoted companies, small capitalization, high concentration, low liquidity, high volatility, and comparatively rudimentary institutional set up;
Second Group: higher liquidity, more quoted companies, foreign investor interest, and small equity in relation to the economy;
Third Group: market return less volatile, accelerated growth in trading activities and volume of shares issued, expanded capitalization and growing interest in developing mechanisms to transfer risk;
Fourth Group: more mature with high liquidity and trading activity, substantial financial depth, equity risk premium close to international competitive levels.

2.2. 2 Investing in Emerging Markets

The theoretical benefits of international diversification are supported by ex-post evidence. However, there are important practical issues in investing in emerging markets, such as barriers to international investment, discrepancy and asymmetric information and transaction costs, taxes on foreign investment income, lack of transparency, higher information processing costs, problems related to liquidity of investments, unreliable trading and brokering practices, settlement and delivery risks, and political and foreign exchange risks (Yesim and Nelson, 2004). There are also structural differences (Barry, 1997). Divecha et al. (1992) observe that emerging markets are more concentrated than developed markets and market developments tend to have a large impact on the movement of stock prices in emerging markets.

Although emerging markets offer several attractions to foreign investors, trading is not without difficulties. One problem is that these markets are considered highly volatile (Tokat and Wicas, 2004). Although some studies (e.g. Poshakwale, 1997) have confirmed a general impression that emerging markets are excessively risky for overseas investors, more have concluded that this view is not justified. The available data is unfortunately relatively short over the observed life of these markets which generally have been subject to considerable changes in their regulatory and operating framework. As a result knowledge about the risk and return characteristics of emerging markets is patchy (Derrabi and Leseure, 2005).

2.2. 3 The Importance of the Capital Markets

Abdullahi (1993) provides a summary of the importance of the Capital Markets, in the development process in developing countries, as follows:

- The securities market develops entrepreneurial skills;
- The market provides substitutes for saving and investment;

- The market serves as a source for fresh external capital for companies and government;
- The securities market determines the rate of return on investment;
- The market assists in the implementation of government policies appertaining to redistribution of the ownership of the industry;
- The market serves as a means of pooling foreign capital through portfolio investment;
- The securities market facilitates the broadening of industrial ownership;
- It also serves as an avenue of integrating the non-organised financial sector with the institutional financial sector;
- The stock market provides financial investors with a variety of investment opportunities;
- The development of the securities market would deter capital flight by providing attractive financial assets locally.

2.2. 4 The Capital Markets and Economic Growth

The stock market has been seen as an essential component for economic and financial development in developed countries (Mayer, 1988). However, this belief has less support when the stock markets in developing countries are considered (Mayer, 1988); they believe that the stock markets have no real impact on economic growth in these countries.

Therefore, there is a wider and irreconcilable debate as to whether stock market development has an important impact on economic growth in any given country. The literature gives two opposing arguments concerning this link.

Levine and Zervos (1996) argue that there is disagreement among theorists concerning the importance of stock market development to economic growth. The opponents of such a link conceive of it as unimportant and of little economic benefit (Drake, 1977). Moreover, Stiglitz (1985) rejects the possibility that stock market liquidity will induce the acquisition of more information about firms and corporate governance. In addition, many authors such as Shleifer and

Summers, following the same line of argument, argue that the development of stock markets might undermine economic growth through the use of counter-productive takeover bids (Al-Shayeb, 1999).

On the other hand, the impact of stock market development, specifically on economic growth, has been acknowledged by many economists such as Goldsmith (1969) and McKinnon (1973). Holmström and Tirole (1993) claim that stock market liquidity enhances the acquisition of information about firms and corporate governance. Beck and Levine (2001) recognize the importance of stock market liquidity for economic growth. Thus, stock market liquidity helps in reducing the uncertainty involved in long-term investment financing, while not affecting investors with respect to liquidity needs. Obstfeld (2000), along the same lines, says that the rate of economic growth can be enhanced through reducing the international risk by international integration of stock markets. Greenwood and Smith (1997) argue that stock markets are seen as mechanisms for raising capital which enhances the mobility of resources which, in turn, improve economic growth. However, Bencivenga and Smith (1991) argue that reducing saving rates due to excess liquidity can slow growth.

The growing number of empirical studies (Kirkpatrick, 2005), with respect to emerging markets, tends to support the link between stock market development and economic growth. Levine and Zervos (1996), using data from 41 countries over the period 1976-1993 show that there is a positive correlation. In addition, King and Levine (1993a; 1993b) show that there is a strong link between financial development and the economic growth rate in the long term.

Furthermore, it has been suggested that there is increased awareness of the relationship between the financial market, financial development and economic growth (Singh, 1996). Lucas (1988) argues that stock markets and financial intermediation aid economic growth, increase the investment rate and achieve improvements in investment productivity. Demmogrüc-Kunt and Levine (1995) reach the same conclusion regarding a positive correlation between stock market development and the development of the financial intermediaries.

However, according to (Al-Shayeb, 1999), criticism has been directed at the stock markets' role in the rate of investment, internal competitiveness, economic development, and the time horizon of firms (Al-Shayeb, 1999). Stock markets have been accused of failing to perform their monitoring, screening, and disciplinary functions (Al-Shayeb, 1999). Porter (1992) claims that the American stock market fails to allocate investment capital both within and across companies and, therefore, American companies are at a disadvantage in global competition, a situation that has threatened the long-term growth of the US economy.

To sum up this section, most studies tend to suggest that stock market development, along with financial intermediaries, have an impact on economic growth, principally through their own operations and their role in allocating financial capital between different economic activities. It is apparent that there is still much work to be done in this area.

2. 3 Information and Efficient Capital Markets

Information plays an essential role in the efficiency of financial markets. It is the engine and the bedrock upon which the participants in these markets can re-assess the prices of securities on a continuous basis. Moreover, financial markets cannot operate efficiently unless the requested information is available and appropriate.

Keane (1985) stated that:

> *"The term efficiency, used in its ordinary sense, might suggest that market efficiency relates to the organizational and administrative efficiency of the securities market. The term, however, is used here in a much narrower sense, being concerned specifically with how successful the market is in establishing security prices that reflect the worth of the securities, success being defined in terms of whether the market incorporates all new information in its security prices in a rapid and unbiased manner."* (Keane, 1985: 9)

Efficient financial markets have a substantial effect on the real economy. From the point of view of savers, efficient financial markets provide them with an opportunity to increase future consumption opportunities by allowing others to use their surplus current income. The yield that savers obtain from the financial assets permits higher further consumption. In addition, it encourages thrift by allowing individuals to defer current consumption and build wealth.

At the same time, investors benefit from the access to real resources that an efficient financial market permits. By providing resources necessary for increasing plant and equipment and, hence, productivity, an efficient financial market enables the business sector to invest in the future. To the extent that resources are readily available, investment is high, and the firm can finance expansion and exploit profitable opportunities.

For the economy as a whole, an efficient financial market means a better standard of living. Higher consumption is made possible by greater capital intensity and greater output. Unlike the stereotypical view of financial markets as a wasteful activity without a real recourse effect, financial markets are an integral part of a developed economy. They allow specialization and a complex flow of resources between borrowers and lenders. Very specialized projects are financed through the financial markets and their institutions, as the expertise of specialists is tapped to funnel funds to their most efficient use. In fact, no developed economy can maintain a high level of consumption and growth without a sophisticated financial system.

2.3. 1 Efficient Market Hypothesis Definition

The Efficient Market Hypothesis (EMH) evolved in the 1960s from the Ph.D. thesis of Eugene Fama. Fama (1970) defines an efficient market thus:

> *'A market in which prices always "fully reflect" available information is called "efficient"* (Fama, 1970: 383).

Later Fama (1998) redefined (EMH) as:

> *'...market efficiency (the hypothesis that prices fully reflect available information)...' and '...the simple market efficiency story; that is, the expected value of abnormal returns is zero, but chance generates deviations from zero (anomalies) in both directions.'* (Fama, 1998: 284)

On the other hand, Grossman and Stiglitz (1980) argued that prices cannot perfectly reflect the available information because it is costly, those who spent resources to obtain information would receive no compensation, leading to the conclusion that an efficient market is impossible.

2.3. 2 Efficient Market Hypothesis Levels

In defining the "relevant" information set that prices should reflect, Fama (1970) classified the pricing efficiency of a market into three forms. The distinction between these forms lies in the relevant information that is hypothesized within the price of the security.

- **Weak efficiency:** means that the price of the security reflects the past price and trading history of the security. The information set includes only the history of prices. Keane (1985) defines the weak efficient market as:

> *'The market is efficient in the weak sense if share prices fully reflect the information implied by all prior price movements. As a result, investors are unable to profit from studying charts of parts prices'* (Keane, 1985:171)

Fama (1970) define this form as:

> *"Weak form tests, in which the information set is just historical prices, are discussed"* (Fama, 1970:383).

- **Semi-strong efficiency:** the price of the security fully reflects all public information, which includes but is not limited to, historical price and trading patterns. The information set includes all information known to all market participants. Fama (1970) stated that:

> *'A semi-strong form tests, in which the concern is whether prices efficiently adjust to other information that is obviously publicly available (e.g. announcements of annual earnings, stock split, etc.) are considered'* (Fama, 1970:383).

- **Strong efficiency:** exists in a market where the price of a security reflects all information, whether or not it is publicly available. The information set includes all information known to any market participant, either published or unpublished including inside information. Fama (1970) defines the strong efficient market as:

> *"Strong form tests concerned with whether given investors or groups have monopolistic access to any information relevant for price formation are reviewed"* (Fama, 1970:383).

Keane (1985) considers that the strongly efficient market is sometimes called a perfectly efficient market, where prices and values are always equal, as they fluctuate randomly together as new information arrives. Also, he pointed out that these levels of market efficiency are un-independent of one another. For example, for the market to be efficient in the semi-strong form, it must also be efficient in the weak sense:

> *'If price movements follow a predictable path which the perceptive observer can exploit profitably, the implication is that the price has reacted slowly or capriciously to published information. Likewise, for the market to be efficient in the strong sense it must also be efficient at the two lower levels, otherwise the price would not capture all relevant information'* (Keane, 1985)

2.3. 3 Evidence on the Efficiency of Financial Markets

Due to its importance to investors, the EMH has been tested extensively over the last three decades (Kothari, 2001). Testing the EMH is still continuing by using more advanced techniques. In the last few years, there has been a growing interest in emerging markets (Saadi, 2006). Research on these markets has focused on the issue of efficiency, as well as on their integration into international markets (Saadi, 2006).

The focus of most research and studies is on the following aspects (Dickinson and Muragu, 1994):

- To determine the efficiency of financial markets - whether the prices reflect all available information regarding the economics associated with various levels of development;

- To determine the types of information used by participants in the amendment of expectations and that consequently affect the volume of transactions and changes in exchange investments;

- To determine the accounting data that can be used to predict the rates of return on investments in securities and rate their own risk.

The following is a summary of some of the studies that have made contributions relevant to this thesis:

The most important studies are Roberts (1959) and Fama (1965). These studies focused on testing the hypothesis tracking indiscriminate market changes and determining whether there is an important relationship between price changes from time to time. Data used in these studies has been the prices of investments on a daily, weekly and monthly basis. The studies mentioned supported this hypothesis and showed that there is no possibility of predicting future prices of investments using models based on price changes for the period's years.

Other studies focused on determining the quality of accounting and financial events that contain new information and set the pace of reflection of this information in the prices of investments that will be circulated in the financial markets. The studies conducted by Ball and Brown (1968) and Beaver (1981) are the most important studies in this area because the methods and models used in these studies are applied by most subsequent studies.

The study by Ball and Brown (1968) tested the usefulness of accounting information in the financial market through analysing the association between accounting earnings and stock returns. The study sample was divided into two groups: the first includes companies that have achieved positive changes in profit and the companies associated with good news that has occurred; the second group contains companies that have achieved adverse changes or companies associated with bad news. The result of the study, confirming that the announcement of accounting earnings contained new information to market participants and led to changes in the prices of investments. This study also proved that information had been fully reflected in prices as soon as the news became available to the participants.

Beaver (1968) tested the announcement of annual profits on both the volume of transactions in the shares of these companies and their movements during the probation period (17 weeks). Results of the study showed that there were unusual movements in dealings in the shares of the companies during the period in question. He also found that there were important changes in the share prices of these companies.

2. 4 International Financial Reporting Standards (IFRS)

Capital markets play a key role in the economic development of any society, as the diversion of savings into investments raises the GNP of the whole community. Savers will not invest in the capital markets unless these markets have a high degree of credibility and transparency. That will give them the highest degree of confidence that these savings will be in good hands to help them in achieving returns on their investments.

The credibility of capital markets is enhanced through the disclosure of information about these companies that traded securities in the capital markets adequately, and without delay. Enhanced credibility is achieved through a third party; an independent, qualified and objective review of key information provided to investors in the capital markets and an expression of their impartial views; which is the role played by the accounting and auditing profession in the capital markets. This independent and impartial view also improves the stability of the capital markets.

2.4. 1 A Definition of Accounting

There are many definitions of accounting and many different views. By 1966, the American Accounting Association (AAA) interpreted accounting as:

> *"...the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of the information ".* (Bebbington et al., 2001: 8)

In 1975 the AAA added that the purpose of accounting was:

> *"...to provide information which is potentially useful for making economic decisions and which, if provided, will enhance social welfare ".* (Bebbington et al., 2001: 8)

The governance of the accounting profession practice is known as "generally accepted accounting principles". This term includes accounting standards and all regulation related to "how a company should prepare its accounts" and in the UK, it includes UK company law (Bebbington et al., 2001).

2.4. 2 The Need for International Accounting Standards

Increasingly global capital markets have significantly expanded investment opportunities and investors need to analyse both foreign and domestic companies. As financial reporting standards are established separately in each country, differences in the standards make it difficult to generalise about those differences and also to compare domestic companies with those in other countries (White et al., 2003).

White et al. (2003) stated that:

> *"Financial reporting requirements are a function of tax regulations, corporate law, the comparative significance of capital markets and financial institutions in industrial development, and cultural difference. However, as capital markets and international investments expand, the need for global accounting standards is obvious".* (White et al., 2003: 12)

Until recently every country had its own accounting standards, however, international pressures have led to the adoption of a single set of international accounting standards.

This has in turn yielded significant international change at the beginning of the present century and the results of these efforts are still affecting the theory and application of accounting in most countries in the world.

Many researchers (such as Jaggi and Low, 2000; and Nobes and Parker, 2006) attempted to determine the factors that linked to the differences in accounting practices and systems which may include: institutional, cultural, political, legal systems and taxation.

Several groups may need and may benefit from universal harmonization of accounting standards include the following groups: multinational companies; international investors; international companies; international accounting firms; international inter-governmental organizations; governments and regulating bodies; and financial markets (Basoglu and Goma, 2002).

On the other hand, as Nobes and Parker (2006) note, there are many obstacles towards universal harmonization of accounting standards; an important one is the size of the present differences between the accounting practices of different countries. They stated that:

> *"Indeed, it is not clear that it should be overcome. If the predominant purposes of financial reporting vary by country, it seems reasonable that the reporting should vary. Harmonization is most useful when it concerns similar users who receive information from companies in different countries. It may be that the relevant companies should follow two sets of rules: one for domestic and another for international consumption, or one for parent statements and another for consolidated." (Nobes and Parker, 2006: 77)*

Nobes and Parker (2006) added more obstacles which include: the lack of an international regulatory agency; nationalism; and the effect of economic consequences on accounting standards.

The need for International Accounting Standards has become even more pertinent because of some recent events:

- The first event to trigger major change was the failure of some companies, such as the giant American company, "Enron" which was one of the largest energy companies in America. This failure resulted in significant financial losses and led to American government intervention and judicial actions to expose the reasons for this failure. The result was that the accounting standards of America were cited as one of the reasons for this financial disaster;

- The second event was the European Parliament regulation No. 1606, issued in July 2002 that recommended that all listed European companies should use the international accounting standards when preparing their financial statements. The regulation considered the most important events that have supported the move toward international accounting standards. The consequences of this regulation have extended towards many of the developing and developed countries. Most of the developing countries account to international accounting standards for reasons of poor national accounting structures. Internal and regional pressures on the organisers of accounting in some countries led them to also adopt the international accounting standards. One justification for these pressures is that some of these countries do not have the resources and infrastructure to enable them to prepare their own standards, in addition to the fact that states must cope with changes in line with modern and international unanimity.

2.4. 3 The Development of International Accounting Standards

Historically, the beginning of the international accounting standards was in June 1973. Founded as the International Accounting Standards Committee (IASC) under an agreement between the national accountancy bodies in ten countries (Black, 2003), with the aim to:

- Discuss issues of national accounting, among the participating nations on an international scale;
- Adopt ideas regarding accounting and issuance of international standards in the public interest;
- Achieve a degree of compatibility between the accounting practices among the participating nations that allow tests for comparison;
- Work to achieve a degree of international acceptance of what comes out of the standards.

To achieve these objectives, the Commission has worked to coordinate and unify the views of its members and focused its work on the selection of certain accounting treatments applied in a particular nation and then adopting this treatment and adjusting it, if necessary, to seek international acceptance.

The following is the chronology of the development of International Accounting Standards:

- In 1974 the (IASC) Commission issued the first international accounting standard entitled "the disclosure of accounting policies".
- In 1976 the Commission received its first strong support from economic institutions when the Group of Governors of the central banks of the ten major countries instructed cooperation for the financing of projects leading to the issuance of an accounting standard for financial statements of banks.
- In 1977 the International Federation of Accountants (IFAC) was founded. Because international accounting was not independent when established, the accountancy bodies in the institution, started to impose a hegemony on the International Accounting Standards Committee.
- In 1984 contacts between the IASC and the US Securities and Exchange Commission (SEC) were initiated.

Concerns had also begun to arise over standardization and harmonization of accounting standards globally. Several international conferences were organised by the SEC. These conferences discussed the globalisation of capital markets and mechanisms for the protection of investors, as well as the globalization of the financial report.

- In 1987 the International Organisation of Securities Commissions (IOSCO) first joint activities with the International Accounting Standards Committee began. It was the first such organization to guide the development of international accounting standards and their universal acceptance.

IOSCO is an organization of securities regulators from more than 65 countries (White et al., 2003). It also became the main engine behind the restructuring of the Commission to turn it into an integrated international body completely independent of the International Federation of Accountants.

- During 1988 the Financial Accounting Standards Board (FASB) joined IASC. The Committee began work on the draft accounting standards of financial instruments and derivatives. It also issued special financial viability lists for comparison, which contributed to the IOSCO work for global exchanges.

- In 1989 the International Accounting Standards Committee enacted the general theoretical framework for the preparation and presentation of financial statements.

- At the beginning of the 1990s, the Committee achieved some of its most important developments such as accession to the European Union advisory group as an observer. It was to codify the relationship between the Commission and the General Federation of Accountants, IFAC, and the Council of the American Financial Accounting Standards (FASB) to support an International Commission. This period was marked by the commencement of activities aimed at increasing international acceptance of statutory bodies, including the International Organisation of Securities Commissions (IOSCO); for international accounting standards.

- In 1994 the SEC accepted three international accounting standards whereas the IOSCO accepted fourteen standards. The World Bank approved the financing of a project for the issuance of the accounting standard on agriculture, and a joint AASB, FASB and IASC draft accounting standard on Earnings Per Share was published.

- In 1995 the IOSCO & IASC completed the Memorandum of Understanding between them and the two sides agreed on the need to complete a set of accounting standards by the end of 1999. This agreement was endorsed by the European Union and the EU appealed to European multinational companies to apply these international standards.

- In 1996 these international accounting standards received the attention of many important organizations. For example, the American Congress demanded the existence of high-quality international accounting standards, and the Trade Ministers in the Member States of the WTO issued a joint statement encouraging the success of the completion of the international standards. The WTO called for the European Union to publish criterion for financial derivatives consistent with the nature of derivatives in Europe.

- In 1997 IASC began to adopt the role of issuing developmental standards and created a special commission to tackle the issue of tools and financial derivatives as a special project sponsored by the Committee.

- In 1998 a significant development in the recognition of the codification occurs as the international standards of four European countries were accepted and national laws allowed large multinational companies to use the international standards for a local report within each national state.

- In 1999 a committee from IOSCO started a review group of the accounting standards for the determination of general acceptance. In the same year, the finance ministers of the Group of Seven industrialized nations issued a statement urging the need to support international accounting standards.

On the other hand, the European Organization for Consultancy (EFF) urged European companies to use the international accounting standards with the qualification of the application of the criterion of financial instruments and derivatives. The same attitude was adopted by the Federation of Accounting and Auditing bodies of the States of Europe and Asia. In the same year, the International Federation of Accountancy formed an international team (IFAC) to discuss the development of accounting focusing on supporting the use of international accounting standards as an essential guide to worldwide financial reporting.

- In 2000 the Basel Committee on private banking affairs announced support and acceptance of international accounting standards and the efforts of globalization of accounting. In the same year it accepted the Bourses IOSCO Regulation (30) international standard Nr 30 which allowed companies registered on the stock markets to use international standard financial reports on the precondition of intended circulation outside the borders of their home nation.

The most important development of this year was a European law requiring companies listed on European Stock Exchanges to apply international accounting standards to all of their financial reports, by no later than the first of January 2005.

- In 2001 IASC began the process to announce the establishment of the structure of the new accounting standards (the International Accounting Standards Committee) which was established on 1st April 2001.

Between 1975 and 2000, the IASC issued 41 International Accounting Standards (IAS) whereas from 2001 until the end of 2006, 8 international financial reporting standards (IFRS) were issued by the International Accounting Standards Committee.

According to IASB (2007) there are no new major standards to be effective before 2009.

2.4. 4 The Experiences of Conforming to International Standards

This section will provide a short presentation of the experiences of a number of countries, including developed countries which have strong national councils and have issued a strong body of national accounting standards and other developing countries which do not have a strong infrastructure for the preparation of national standards.

The Experience of the United Kingdom:

Britain was the main source of the international standards and hosts the headquarters of the IASC. Nevertheless, Britain did not have a specific plan to conform to international standards; The British Accounting Council issued national standards according to the needs of the British market in addition to its activity in the formulation of international standards.

In 2002 Britain strongly welcomed the EU decision on the application of International Accounting Standards as of 2005. The Department of Trade and Industry publication of companies and auditors and the National Council of Accounting Standards and the National Auditing Standards and others influenced the decision to amend the Union depending on the conditions of this resolution.

At the end of 2004 the Accounting Standards Board (ASB) of Britain issued six criteria, considered as being important and significant in the conciliation of British accounting standards with international standards. The release of these criteria was an important step for the harmonisation of international standards within the United Kingdom, However, the UK will only introduce the international standards if they conform with the national standards used by the British Accountancy Council.

American Experience:

The American experience is that of the strongest partner in international accounting standards for several reasons. The United States has the largest infrastructure for accountancy represented by the councils and national bodies, stock exchanges, investors and universities. With an increasingly globalized accountancy profession which formed the features and foundation of a coherent international accounting standard, and as a result of certain accounting disasters that have occurred in America, the American Stock Exchange and the Financial Accounting Standards Board slowly approached acceptance of international standards. The approach of America in this regard was twofold: firstly, to change some American standards to comply with international standards, and secondly, to seek change in some of the international standards to conform to the American standards.

This international dialogue began in 2002 with a meeting to discuss matters related to adjusting and harmonizing the accounting standards issued by both sides. The meeting reached a common understanding to reduce differences between the American and international standards by working to make the standards issued by each of them compatible. This was to be implemented with coordination from both, before any further release of standards.

The International Accounting Standards Board issued draft (No. 4) to modify the international standard, IAS 35 to coincide with American criteria. On their part, the Americans signed several drafts to amend a set of standards so that they complied with the international standards. Despite the apparent cooperation between the two sides, the American Council continued to list American standards and passed other standards binding in America without coordination with the international standards.

The Experience of Australia and New Zealand:

Australia is one of the nations where there are strong national accounting standards; it was also a founding member of the International Accounting Standards Committee, founded in 1973. New Zealand is also a partner with Australia in all matters of accounting. Australia and New Zealand planned to conform to the international accounting standards by the National Council in 1996, following a policy of harmonisation of all the national standards with all similar international standards.

In mid-2004, Australia and New Zealand applied tracking guidance in the application of international standards for the first time. At the same time, the National Council of Australia and New Zealand lists the national standards that are compliant with international standards, or are themselves the international standards, with the addition of certain paragraphs commensurate with the nature of the environment. As of 2005, the financial reporting of companies in both countries is compliant with national standards, which are themselves of an international standard.

The Experience of Denmark:

Denmark began to experiment with the international standards in 1993, since when, the National Council of Denmark policy has been for the national standards to comply with every international standard issued. In the same period, the National Board has to reduce the differences between international standards and national standards.

In 2002, after getting rid of most of the differences between national standards and international standards, a law of accounting standards was enacted which required that all of the accounting of Denmark had to be amended. The Copenhagen Stock Exchange issued a circular to encourage early application of international accounting standards. As of 2005 registered companies have committed to national standards fully compliant with international standards.

Singapore's Experience:

Singapore is an average nation in terms of economic resources and accounting infrastructure. Singapore's plan was proposed by the Ministry of Finance. The plan began in 1999 when the Ministry of Finance adopted a resolution to conform to international standards and established national accounting standards and disclosure criteria in the same year. As of 2000 the Council of the National Standards and National Accounting Standard coincided with the international standards. This was followed in 2001, by the government decision, of the Ministry of Finance, obliging companies' Standards of the National Council to be based on international standards. As of 2003 national companies have committed to national accounting standards which fully comply with international standards.

The South African Experience:

The experience of South Africa since 1993 can be linked with the decision of the State Government to make the national accounting standards fully compliant with the relevant international accounting standards. Upon issuance of revised international standards, the state issued national standards and pointed out that the resolution commitment is in keeping with the international standards. As of 2002 all international standards are used to source the issuance of a binding national standard, taking into account differences between the dates of obligation.

The Japanese Experience:

Japan has been a full partner in all the activities, of the IASC since its inception. On October 12, 2004 talks were initiated between the International Accounting Standards Board and the Accounting Standards Board of Japan on a joint project to reduce the differences between the accounting standards issued by each of them. The talks set out to achieve two things: the first is that these talks were a step towards achieving consensus; and secondly to achieve Japanese support and contribution to the development of international capital markets. The resulting international dialogue has contributed to the reduction of differences between international standards and the standards of Japan.

2. 5 Financial Reporting and Disclosure Practices

This part of the literature review focuses primarily on the financial reporting and disclosure practices. A number of studies have been completed either in developed or developing countries. The following subsections presents a review of the significant studies that have been carried out. The sub-sections are divided into:

- The required level of disclosure;
- Voluntary or mandatory disclosure;
- Disclosure studies in developed countries;
- Disclosure studies in developing countries.

2.5. 1 The Required Level of Disclosure

There are several concepts used to describe disclosure levels. The most common principles used in this regard, require companies, by the US Generally Accepted Accounting Principles, to give full; fair and adequate disclosure. Riahi-Belkaoui (2000) defined these concepts as follows:

> *"Full disclosure refers to complete and comprehensive presentation of information"; 'Fair disclosure implies an ethical constraint dictating an*

> *equitable treatment of users"; and adequate disclosure connotes a minimum set of information to be disclosed."* (Riahi-Belkaoui, 2000:178)

Full disclosure implies that information presented should be relevant, complete and comprehensive. Fair disclosure implies an ethical perspective in which all potential users should be treated equally when disclosing information. Adequate disclosure implies presentation of a specified minimum amount of information to be disclosed. Hendriksen and Van Breeda (1992) stated that there is no real difference between the principles of fair and adequate if they are used in the proper context.

Full disclosure does not mean that information should be presented without any discrimination, since there will be an increase in the cost of additional information, but, implies that information should be limited if its costs exceed its benefits. In addition, even if it is argued that more information can be disclosed without any cost - a somewhat erroneous assumption; one might say that much unimportant detail will hide the significant information and make the presentation difficult to understand.

According to Abdul Rahman (2003):

> *"Adequate disclosure means that the financial statements should contain all material information necessary to make them useful to users".* (Abdul Rahman, 2003)

The nature of disclosure adequacy was defined by the American Institute of Certified Public Accountants (AICPA) in its statement no. 32. This statement asserted that:

> *"The presentation of financial statements in conformity with generally accepted accounting principles includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. An independent auditor considers whether a particular matter should be disclosed in light of the circumstances and facts of which he is aware at the time".* (AICPA, 1980)

2.5. 2 Voluntary or Mandatory Disclosure

There are a number of authors (for example: Akerlof, 1970; Choi, 1973; Jensen and Meckling, 1976; and, Wallace, 1987) who attempt to present arguments to explain why firms disclose their information. Several writers, such as: Choi (1973); and, Wallace (1987), have supported the idea that there is no need to make disclosure mandatory. The advocates of this approach based their arguments on the following principles: Agency Theory; Capital Market Theory; Signalling Theory; and Political Economy Theory (Al-Mulhem, 1997).

The corporate disclosure could be divided into mandatory requirements demanded to be fulfilled by formal accounting authorities such as: stock exchanges; securities commission; and company law and additional voluntary disclosure motivated by economic cost-benefit analysis (Ettredge et al., 2002).

Akhtaruddin (2005) offered the following definition of mandatory disclosure:

> *"the presentation of a minimum amount of information required by laws, stock exchanges, and the accounting standards setting body to facilitate evaluation of securities".* (Akhtaruddin, 2005:404)

Several writers have supported the idea that there is no need to make disclosure mandatory. On the other hand, mandatory disclosure can be supported on the grounds that it is in the public interest. Several countries have found it necessary to mandate disclosure of accounting information. The most important reason that is normally used to defend mandatory requirements is based on the notion of market failures. It is asserted that one consequence of insufficient disclosure is a failure of the market (Hendrickson and Van Breeda, 1992). Market failure is assumed to have occurred because insufficient disclosure leads to suboptimal resource allocation.

In 1977 the SEC Advisory Committee on corporate disclosure enumerated six reasons for continuing mandatory disclosure, which includes:

- Market motives cannot be depended on to assure timely and reliable information;

- Significant incentives exist for at least temporary concealment of bad information by corporate executives;
- Many equity analysts think that their efforts to obtain information would be lessened without federal disclosure regulations;
- Most public companies are not followed by analysts;
- Analysts try to obtain information for themselves, their companies, or their clients;
- Fairness and equity are ingrained so deeply in the investors' minds, that any amendment of the disclosure system that might endanger these virtues would be unrealistic and unacceptable.

2.5. 3 Disclosure Studies on Developed Countries

Several studies have been carried out on developed countries, such as; the UK, Canada, Japan, and the USA. The following are summaries of the most important studies on developed countries:

Cerf, (1961) was a pioneer study that used a disclosure index to measure the extent of corporate financial reporting of United States' companies. Cerf surveyed a large number of companies' annual reports listed on the New York Stock Exchange. Four key attributes were tested in relation to a disclosure index by ordinary least squares regression and the results indicated that there was a positive association between disclosure scores and three independent variables (*assets size, number of shareholders, and the rate of return*). However, the researcher found no relationship between the extent of disclosure and listing status.

The Singhvi and Desai, (1971) study attempted to identify some of the characteristics in the US context, which are associated with, and the probable implications of, the quality of corporate disclosure. They studied the extent of disclosure of a number of companies, both listed and unlisted, for one year. In order to evaluate the quality of information disclosed in the corporate annual reports they developed an index which was similar to the work of Cerf (1961). A chi-square analysis and multivariate analysis was undertaken to test the association between the level of disclosure and six corporate characteristics (*assets size, number of stockholders, the rate of return, listing status, Certified Public Accountants (CPA) firms, and earnings margin*). The results showed that all six variables were found to be statistically significant.

The objectives of the Buzby, (1974) study were as follows: (i) to measure the extent of disclosure of each of the items; (ii) to measure the relative relationship between the importance of an item and its extent of disclosure; (iii) to measure the average extent of disclosure of the items taken as a whole. Buzby used a disclosure index constructed from a number of items of financial and non-financial information based on previous studies. The results of Buzby' findings indicated that many of the items were inadequately disclosed in the sample companies' annual reports and the correlation between the relative importance of the items and the extent of their disclosure was small. He found a positive association between the extent of disclosure and asset size but no significant association between listing status and the extent of disclosure.

Stanga (1976) selected a sample of US companies and evaluated their corporate annual reporting using a disclosure scoring sheet for a number of items of information. The items of information were weighted based on replies received from a questionnaire sent to financial analysts. The size variable selected for study was based on sales rather than assets. He also investigated industry type, a variable not selected before by previous researchers. He found that corporate size as based on sales was not a significant explanatory variable but that industry type was significant.

The purpose of the first Firth study (1978) was to test the consensus of the users on the perceived importance of the disclosure of individual items of information, (including 75 items), in corporate annual reports in the United Kingdom. Different user groups were isolated: financial analysts employed by stockbrokers and investment institutions, and bank lending officers and finance directors and auditors from both types of institution. The respondents evaluated the importance of each item using a five-point scale. Six hypotheses were tested. Firth identified that the main findings from the hypothesis tests were that finance directors and auditors were in substantial agreement regarding the weighting and that financial analysts and bank lending officers were in substantial agreement. However, finance directors and auditors did not share opinions similar to the financial analysts and bank loan officers, and that financial analysts and bank loan officers, in general, attached higher levels of importance to the items than did finance directors and auditors. Thus, there were substantial differences between the preparers of accounts and the users of those same accounts.

Firth (1979) then set out to examine whether the level of disclosure in corporate annual reports was associated with the size of the company, listing status, and auditors. A number of items of information (48 items) were developed in the disclosure index by review of the relevant literature. It was found by the study that both size and stock market listing variables were related to disclosure but the auditor factor had no impact at all. The research also indicated that companies with stock market listings released significantly more information than companies that were unlisted.

The first study by Cooke (1991) sought to investigate the impact of certain firm-specific characteristics, including size, stock market listing and industry type, on voluntary disclosure in Japanese corporate annual reports. The researcher assessed voluntary disclosure on the basis of a company's Commercial Code Accounts and the relevant Securities and Exchange Law. The study sample of corporations were categorized into three groups: an unlisted group; Tokyo Stock Exchange (TSE) group; a control group was a mixed sample. Cooke used three regression models in a step-wise procedure. The listing status was found to be a significant explanatory variable in all three groups.

Another study by Cooke (1992) examined the extent of financial disclosure in Japanese corporate annual reports and also assessed whether a number of independent variables affected the level of disclosure. The research used a linear regression model and found that multiple listed corporations disclose more information than corporations listed only on the Tokyo Stock Exchange (TSE). Size was found to be an important influence on the level of disclosure.

Malone et al. (1993) examined selected characteristics of the oil and gas enterprises and the association of these characteristics with the disclosures in general purpose external financial reporting in the USA. The research explored the extent of financial disclosure by using a weighted index of disclosure items. Ten hypotheses were tested by a multiple regression model. The results judged that only three variables (exchange listing status, debt-equity ratio and number of shareholders) were significant in explaining the extent of financial disclosure.

Hossain et al. (1995) research was to look for possible determinants of disclosure policy of New Zealand companies by relating the contents of their annual reports to five characteristics including firm size, leverage, assets-in-place, type of auditor and foreign listing. To measure the disclosure, an index based on information from previous studies was created.

Using cross-sectional regression the results of this study showed that firm size, foreign listing status and leverage are significantly related to the extent of disclosure. On the other hand, assets-in-place and type of auditor were found not to be statistically significant.

Inchausti, (1997) examined the association between some company characteristics: Including size; auditing firm; stock exchange listing; profitability; leverage; dividends; industry, and the level of financial disclosure by Spanish companies. The annual reports for 49 companies for three years (1989, 1990 and 1991) were investigated and tested through a general disclosure index consisting of 50 items (both compulsory and voluntary). The study also examined the effect of regulation through data analysis including time effects.

The results obtained through regression analysis showed that size, auditing firm and stock exchange listing were found to influence the level of accounting disclosure.

2.5. 4 Disclosure Studies in Developing Countries

Disclosure studies in developing countries include research undertaken in countries such as India, Bangladesh, Nigeria, Jordan, Mexico, Malaysia and Saudi Arabia. A discussion of the studies is considered below.

Financial disclosure in Saudi Arabian corporate annual reports and its relation with company attributes were investigated by many researchers. For example, the study by Abdulsalam (1985) showed that governmental subsidy, foreign participation, governmental participation and external auditing had an impact on the extent of disclosure. In addition, a negative association was found between capital amount, profit amount and assets size with the extent of disclosure.

The study by Bahjatt (1986) identified that the disclosure level varies between different sectors. In addition, a positive relationship was found between the assets size and the level of disclosure, whereas no association was found between the level of disclosure and auditing firm.

The study by Al-Amari (1989), did not examine statistically the impact of firms' attributes on the extent of disclosure, but investigated the extent to which selected items of information were presented in Saudi corporate annual reports. The author designed a disclosure index consisting of 100 items based on the recommendations of the international accounting literature. This research found the level of disclosure to be between 29% and 71%.

A study conducted by Al-Modahki (1995) aimed to investigate longitudinally the extent of aggregate, mandatory and voluntary disclosure in the annual reports. The impact of five firms' characteristics; including: industry type; company size; auditor type; foreign investment; and length of incorporation; on the extent of disclosure were also tested. The author found that all three measures of disclosure showed a significant increasing trend in the extent of disclosure over the years under investigation. In addition, it was found that the relationship between industry type and extent of disclosure was significant between two industries, namely banking and manufacturing. Furthermore, company size was found to be significantly related with the extent of disclosure in terms of paid-in-capital only. The other three variables, namely foreign investment and length of incorporation, were found to have no significant impact on the extent of disclosure.

Al-Mulhem (1997) in his PhD thesis reprised the work of Abdulsalam, Bahjett and Al-Amari, and found that the level of disclosure in corporate annual reports in Saudi Arabia varied considerably. The author reported that firm size and listing status are significantly related to the extent of disclosure; however, profitability, industry type and type of audit firm are not significant factors.

The study by Solas (1994) focused primarily on the financial reporting and disclosure practices in Jordan. The study indicated that the quality of the disclosure practice was not of an acceptable level. In addition, the financial information disclosure behavior did not follow any pattern in relation to asset size, rate of return, number of shareholders and earnings margin.

A study by Wallace (1987) investigated the level of disclosure in Nigeria. The researcher tested the annual reports of 47 corporations listed on the Nigerian Stock Exchange. The results of this research indicated that the overall disclosure indices were very low; the highest mean score was lower than 44%. Moreover, assets size and type of management were found to be associated positively with the overall disclosure index. Other variables, including sales size, number of shareholders, profitability, liquidity, country of origin of the multinational and type of business were found to have no impact on the overall disclosure index.

Abayo et al. (1993) measured the quality of corporate disclosure in Tanzania by using four measures, namely: compliance with mandatory and voluntary information; timeliness; and audit reports. The results of the study showed that disclosure quality in Tanzania is very poor. None of the companies surveyed complied with all mandatory disclosure requirements. There was a positive relationship between mandatory and voluntary disclosure but it was not strong.

Also, a significant relationship was found between timeliness and the audit report opinion.

A study by Chow and Wong-Boren (1987) examined the association between the extent of voluntary disclosure by Mexican firms and three company variables: firm size; financial leverage; and assets-in-place. The authors found that the extent of voluntary disclosure varied when related to the three variables. They said that both weighted and un-weighted scores were significantly correlated with size. A less significant correlation was found between financial leverage and both scores. Finally, no significant association was found between assets in place and either disclosure score.

Hossain et al. (1994) assessed the relationship between the extent of voluntary disclosure and six corporate factors in Malaysia: firm size; ownership structure; leverage; audit firm; foreign listing status; and assets-in-place. Pearson product-moment correlation coefficients were used to test the correlation between voluntary disclosure and the six variables. A significant correlation was found between disclosure scores and both firm size and ownership structure. In addition, correlation between disclosure scores and leverage was marginally significant. However, no significant correlation was found between voluntary disclosure and assets-in-place. A further test was used to measure the relationship between disclosure scores and both audit firm size and foreign listing status. The test showed that there was a significant difference in disclosure scores between companies audited by small firms and those audited by big firms. A significant difference was also found in disclosure scores between domestic listed and foreign listed companies.

In a study on Indian companies, Singhvi, (1968), reported on the quality of corporate disclosure in annual reports of a number of Indian listed corporations. A disclosure index similar to the Cerf's study (1961) was constructed. The author found that the relationship between the quality of disclosure and assets size, rate of return, earning margin and type of management was positively strong.

Many studies have been conducted in Bangladesh to investigate the quality of disclosure, and compliance to regulations as well as extent of disclosure selected by some corporate attributes. For example, Parry and Groves, (1990) examined the annual reports of sample companies in Bangladesh in order to assess whether the employment of qualified accountants by companies had any impact on the quality of financial reporting. A disclosure index and timeliness were the basis to measure the quality of financial reporting. They found no significant relationship between the qualifications of accountants preparing the reports and those variables. However, their study did not assess the degree of statutory compliance or whether other corporate attributes had any impact on the level of disclosure compliance.

A study by Nicholls and Ahmed, (1995) empirically assessed the quality of disclosure in non-financial listed companies in Bangladesh and compared this with the information needs of users of the accounting regulatory bodies in Bangladesh. The results revealed that during the period of study, the quality of disclosure improved significantly, particularly because of the enforcement of the securities exchange rules.

Karim and Ahmed (2005) examined empirically the association between a number of corporate attributes: corporate size; leverage; profitability; size and international link of the audit firm; stock exchange category; employment of qualified accountant(s); and belonging to financial or non-financial sector and levels of disclosure in corporate annual reports in Bangladesh. The authors found that size, profitability, active trading on the stock exchange, employment of qualified accountants and an international link of the company auditor and multinational subsidiary are significantly associated with the extent of disclosure.

2. 6 The Accounting Profession and Disclosure Requirements in Libya

The growth of the Libyan economy during the second half of the last century has placed burdens upon the public accounting profession in Libya. Investors, creditors and managers as well as state agencies need much more reliable information in order to make their daily decisions in relation to the economic development of the country. Therefore, the Libyan accounting firms are expected to provide many reliable accounting services. Examples of these services are auditing, bookkeeping, services concerning liquidations, tax services and systems design and installations.

The modern accounting profession in Libya is relatively new. Before 1973, there was no Government requirement to have an accounting organisation, as it is known in other developed countries. The Libyan Accounting and Auditors Profession Law (Law Nr 116, 1973) was the first complete regulation enacted in order to organise the accounting profession in Libya. However, the formation of the Libyan Certified and Public Accountants Union (LCPAU) was not completed until 1976. Very little work has been done by this organization to date.

There are a number of accountants and accounting firms who are licensed by the Libyan Certified and Public Accountants Union (LCPAU). However, no systematic body of accepted standards and practices of accounting presently exist in Libya. In addition, there are no professional standards of auditing governing the relationships of the practitioner, his clients, and the public. As a result, a lack of consistency and uniformity in the preparation and presentation of financial reports is noticeable. Few Libyan laws and regulations influence accounting in this respect. These laws include: the Commercial Code (Law Nr 1, 1953); the Petroleum Law (Law Nr 25, 1955); the Libyan Accounting and Auditors Profession Law (Law Nr 116, 1973); and the Income Tax Law (Law Nr 1, 2004).

Specifically, in Libya where there is the absence of a stock exchange as well as an absence of domestic Generally Accepted Accounting Principles (GAAP), the major impact on disclosure requirements has come from Libyan laws related to economic activities (Saleh, 2001). The following sections explore the influence of the relevant Libyan Laws upon the practices of accounting that include the Accounting & Auditing Profession Law (Law Nr 116, 1973), Libyan Commercial Code (Law Nr 1, 1953), the Income Tax Law (Law Nr 1, 2004), The Libyan Petroleum Law (Law Nr 25, 1955).

2.6. 1 The Regulation of the Accounting Profession in Libya

Law 116, 1973 was the first legislation to regulate the accounting profession in Libya (Bait El-Mal, et al., 1973). This law was divided into eight chapters: (Chapter 1) establishment of the Libyan Certified and Public Accountants Union (LCPAU); (Chapter 2) about registration of accountants; (Chapter 3) exercise of the profession; (Chapter 4) fees; (Chapter 5) pension and contribution; (Chapter 6) obligation of accountants and auditors; (Chapter 7) penalties; and (Chapter 8) general and transitional provisions.

A general review of the law Nr 116 reveals that the most significant developments were:

- The establishment of the organisation of Libyan Certified and Public Accountants Union to accomplish its many objectives. The most important objective is to organise and develop all matters related to accounting provision and to enhance the professional ability of its members (Article 3);

- The classification of members of the LCPAU organisation into lists of working and non-working accountants. Each group is further divided into accountants and assistant accountants. Any accountant who wants to be registered in the list of working accountants must, by Articles 23-28:

  - Have Libyan nationality (whereas non-Libyans cannot establish public accounting firms in Libya);
  - Have a Bachelor degree in accounting and five years of experience in accounting;

- Have good conduct, reputation and respectability required for the profession;
- Be engaged and entitled to full political and civil rights.

• Members of the LCPAU organisation cannot combine their practice of the accounting profession with the following activities:

- Any public service; any commercial business;
- Any activities contrary to the integrity of the profession (Article 25).

In addition it is illegal for members to use advertising techniques to promote their own organisation in Libya (Article 26);

• All members of the organisation should undertake all obligations that may be imposed on them by law and the Code of Ethics of the Profession (Article 49). However, a Professional Code of Ethics has not yet been established.

2.6. 2 The Influence of the Commercial Codes

The Libyan Commercial Code (LCC) was enacted on November 28, 1953 and has been amended partially from time to time in order to satisfy the changing needs of society (El-Sharif, 1980). This Code consists of seven books. It has a major impact upon many aspects of accounting in Libya. In some of its parts, the LCC discusses matters of accounting such as: accounting records and other records; valuation rules; invested capital; legal reserve and distribution of profits.

According to LCC: Articles 58-60 and 64 every businessman must keep at least the following accounting records: the Journal which should include all daily transactions; the Inventory and Balance Sheet Book; files containing copies of letters and telegrams received or sent out in relation to conducting its business activities. All of these books must be numbered and signed by an Official from the Court of First Instance before any entries can be made. These books must be kept free from blank spaces, marginal notes, erasures, and insertions between lines.

In addition to maintaining the accounting records it is a requirement to keep the following additional records: Register of Shareholders and Bonds; Register of Minutes of the following meetings: the General Meeting; the Directors' Meeting; the Board of Auditors; the Executive Committee's; and the Bondholders' Meeting.

Every corporation has to follow specific rules in the valuation of its assets and liabilities. Whenever these valuation rules cannot be followed, reasons should be disclosed in the annual report for the shareholders. Some of the important rules based on LCC: Articles 574, 575 and 576 are as follows:

- Fixed Assets: Valued at original cost: each year reduced by related depreciation and the accumulated depreciation reported as a liability;
- Inventory: valued at the 'lower of cost or market' rule;
- Debts: Valued at their estimated realizable value;
- Goodwill: cannot be record unless it is purchased.

The legal capital of any corporation can be increased or decreased in accordance with specified conditions. For example: new shares cannot be issued until those that have already been issued are fully paid up; capital can be decreased in cases where the capital exceeds the needs of the company or the company has suffered an accumulated loss of more than one-third of its legal capital. In both cases, the action must be approved by the General Assembly of Shareholders or by a Court decision. However, creditors have the right to object to capital reduction through the courts (LCC: Articles 586; 593 and 594).

The LCC requires that at least five percent of the annual net profit of every corporation must be retained as a legal reserve. However, legal reserves cannot go beyond one-fifth of the capital of any corporation. The surplus of reserves may be used to increase the total capital and / or be distributed as stock dividends among shareholders in proportion to the number of old shares held by them (LCC: articles 577 and 590).

The LCC provides that founding members of a corporation may participate in a share of the annual net profits for a maximum of five years. In all cases, the profit distributed to founders and directors should not exceed ten percent of annual net profits after deduction of legal reserves. The rest of the annual net profits are distributed equally among all of the shareholders (LCC: Articles 596; 579 and 581).

2.6. 3 The Influence of the Income Tax Laws

Income tax laws in Libya where introduced for the first time by the Italian colonization government: in 1923, in Tripolitania; then in Cyrenaica in 1937 and finally in Fezzan in 1953. The first Libyan government revised all tax laws and a new tax law Nr 21 was enacted in 1968. The second law was enacted in 1973 by law no 64 and the present Libyan Income Tax Law (LITL) Nr 11, 2004 was enacted on March, 2004 to nullify the old law Nr 64 of 1973. The new law consists of five parts and 112 articles.

A general investigation into LITL reveals that in the absence of an organised accounting profession, this law has a significant impact upon the practice of accounting in Libya. It appears that many business firms incorporate tax regulations as well as LCC requirements in the external financial reporting. In addition to this impact, the law has other contributions in the development of the accounting profession in Libya.

Some of the most important contributions of LITL, 2004 may be summarised as follows:

- The income tax law encourages Libyan taxpayers to keep proper accounting records for many reasons such as: whenever there are no proper accounting records, taxable income can be overestimated by tax officials; complaints about tax assessments based on estimates are not accepted from any business firm without supporting books and accounting records; every individual responsible for the management of a business who fails to keep accounting books and records required by law is liable to a maximum fine of 2000 Libyan dinar; anyone who prepares untrue accounts, reports, or balance sheets may be subject to imprisonment for one year, a fine of 1000 Libyan dinars, or both penalties. In addition, compensation equivalent to three times the unpaid tax should be paid by the liable person to the tax department (LITL: Articles 81-86).

- The increasing emphasis on taxation as a state tool for raising finance and increasing efforts to stop tax evasion have resulted in an increase in the demand for professional accounting services. The reasons may be outlined as follows: many taxpayers do not understand how to prepare their income tax returns in accordance with the LITL; in order to avoid income tax assessment on the basis of an estimation, taxpayers turn to professional accountants for help in maintaining proper accounting records; tax returns and financial statements audited by chartered accountants are usually accepted by tax officials without any significant delay.

2.6. 4 The Influence of the Petroleum Law

The Libyan Petroleum Law was enacted in 1955, and has been amended several times to satisfy the changing social, economic, and political environment of the country. This law includes 25 articles providing provisions for many aspects of the industry in Libya.

The Libyan Petroleum Law and associated regulations have a major impact upon the development of accounting in Libya. A large proportion of the petroleum accounting practices have been developed by Libyan Petroleum Legislation. In addition, many good accounting practices applied by Libyan Petroleum Companies were established by these legislations. The ideas of consistency and accounting period were introduced to the literature of general accounting in Libya from its Petroleum Industry. In addition, the application of these laws and regulations increased the need for the services of public accountants in Libya.

Petroleum companies working in Libya are required by law to keep and submit to the Libyan Petroleum Authorities certain financial reports and records. Most of these documents must be in particular forms as specified in the United

Financial Declaration published by the Libyan Secretary of Petroleum. These include the following:

- The Balance sheet at 31st December for each year;
- The Profit and Loss Account for each year ending on 31st December;
- The Public Accountant's Audit Certificates;
- A Report concerning the progress of operations in its concession area during the preceding year must be submitted during the first quarter of each year;
- A Statement including the general program it intends to carry out during the following year should be submitted at the end of each year.

2. 7 Summary

This chapter reviewed the literature relevant to the research problem of this study; it covered six areas of literature. The first part provided information and indicators of Arab Capital Markets and it can be observed from this part that: In fifteen of the twenty-two Arab countries, there are stock exchanges; all Arab markets are emerging markets and most markets started operating during the last two decades; the Arab stock markets are still less active and smaller than the average of other developing countries; the Arab Capital Markets have many similarities in terms of: the type of investors; and their size and structure; one of the important differences between the Arab Markets is their relative ability to attract foreign investments in securities and other financial papers.

The second part reviewed the major issues in the relationship between the emerging market development and economic growth in the economic literature. Some authors (such as Derrabi and Leseure, 2005) stated that an analysis of the evolution of some emerging markets revealed four distinct stages: Embryonic phase, Low activity phase, Active phase and Maturity phase. Most studies (such as Goldsmith, 1969; Smith, 1997; Obstfeld, 2000; and Kirkpatrick, 2005) tend to suggest that stock market development, along with financial intermediaries, have an impact on economic growth, principally through their own operations and their role in allocating financial capital between different economic activities. It is apparent that there is still much work to be done in this area.

The third part reviewed studies about Information and Efficient Capital Markets. Information plays an essential role in the efficiency of financial markets. Financial markets cannot operate efficiently unless the requested information is available and appropriate. The most important studies focused on testing the hypothesis and determining whether there is an important relationship between price changes from time to time. Other studies focused on determining the quality of accounting and financial events that contain new information and set the pace of reflection on this information in the prices of investments that will be circulated in the financial markets.

The fourth part reviewed studies about International Financial Reporting Standards. The governance of accounting profession practice is known as "generally accepted accounting principles (GAAP)". Until recently every country had its own accounting standards, however, international pressures have led to the adoption of a single set of international accounting standards. The beginning of the international accounting standards was in 1973, when the International Accounting Standards Committee was founded under an agreement between the national accountancy bodies of ten countries. Stock Exchanges around the world accept financial statements prepared according to (GAAP) or to their own domestic GAAP.

The fifth part provided studies related to Information, Financial Reporting and Disclosure Practices. A number of studies (such as: Cerf, 1961; Singhvi and Desai, 1971; Buzby, 1974; Stanga, 1976; Firth, 1978; Cooke, 1991; Malone et al,1993; Hossain et al, 1995; Inchausti, 1997; and Karim & Ahmed, 2005) have been completed either in developed or developing countries, which focused primarily on the financial reporting and disclosure practices. There are a number of authors (such as: Akerlof, 1970; Choi, 1973; and, Wallace, 1987) who have attempted to present arguments to explain why firms disclose their information. Several writers have supported the idea that there is no need to make disclosure mandatory. The advocates of this approach based their arguments on the following principles: Agency Theory; Capital Market Theory; Signalling Theory; and Political Economy Theory;

The last part offered information about the Accounting Profession and Disclosure Requirements in Libya. The modern accounting profession in Libya is relatively new. The Libyan Certified and Public Accountants Union (LCPAU) was established in 1973. In Libya where there is the absence of a stock exchange as well as an absence of domestic Generally Accepted Accounting Principles, the major impact on disclosure requirements has come from Libyan laws related to economic activities. Few relevant Libyan laws and regulations influence accounting in this respect.

CHAPTER 3

THE RESEARCH METHODOLOGY

CHAPTER 3: THE RESEARCH METHODOLOGY

The purpose of this chapter is to highlight the methodological and procedural matters surrounding the research. This reports the main issues pertaining to the primary data collection, and significantly to avoid replicating existing research.

Specifically, the chapter contains the following parts:

- Firstly, the introduction provides information about the proposed Research Methodology and data collection techniques in general;
- The second part provides the detailed methodology of the design of the survey to achieve the Research Objective -To what extent is the capital market needed in Libya?;
- The third part provides the detailed methodology applicable to the design of the questionnaire and measuring instruments of the Information Disclosure research objective;
- The fourth part provides the detailed methodology applicable to the design of measuring instruments to examine the level of disclosure in Libyan and Egyptian construction companies.
- The final part contains the chapter summary.

3. 1 Introduction

> *"Research is an activity that we all undertake to learn more about our environment and the impact we have upon It. Research is labeled in many different ways: academic, scientific, fundamental and applied".* (Ryan et al., 2002)

Research, as described above, is the accurate study and precise targeting to clarify and resolve the problem of different methods and different origins and circumstances of the nature of the problem under investigation (Ryan et al., 2002).

Scientific Research is described as an attempt to critically find solutions to the problems faced by humanity and matters of concern and confusion of rights. There are many characteristics of scientific research such as: substantive; susceptibility testing and proof; critical; forecasting; flexibility; of aims to achieve the object and purpose. Also, scientific research aims to achieve many objectives including: adding to the knowledge; description; interpretation; forecasting; compromise; providing evidence linking causes and consequences; and knowledge of the relationship between variables with the elements of the events and their parts.

Specifically in accounting, Smith (2003) stated that most forms of accounting research are described as a series of the following stages: identify broad area; select topic; decide approach; formulate plan; collect information; analyse data; and finally present findings.

3.1. 1 Types of Research

Yin (1994) provides differences between five ways of research: case studies; experiments; surveys; histories; and the analysis of archival information. There is however, no agreement on how to classify the types of research. In fact classification is not important in itself, only to the extent that it serves the research and analysis steps (Sarantakos, 2005).

One way to classify the research can be according to the traditional division, which is on the basis of theoretical thinking or scientific division as follows: applied research and basic research (Saunders et al., 2003). The following describe these types of research:

- Basic research includes research aimed at developing theories through the discovery of principles or generalisations. They are concerned with the basic principles of conduct, of its attention to the research results of applied problems.

- Applied research, that is aimed at improving the practice through testing theories in the real positions; it uses the scientific method to build relationships and test theories accurately.

An alternative way can be classified into quantitative research versus qualitative research (Blaikie, 2000). The following describes these types of research:

- Quantitative research (or sometimes known as research survey) means the collection of data through the use of tools for measuring the quantum of an item under investigation and was developed, subject to the terms of honesty and consistency of the researcher, to address data that can be statistically presented as results of relevance to the original community.
- Qualitative research is based on the study of a natural phenomenon in the context as a direct source of the data, and uses words and images, not numbers, the data are collected directly from observation and the corresponding extensive and thorough examination of documents. The operations that are observed are more important than the results. Qualitative research depends on the analysis of empirical data.

Another way is the classification of research on the basis of standard time, which can be classified into: historical research; descriptive research; and empirical research (Odeh and Malkawi, 1992). The following describes these types of research:

- Historical Research aims to investigate the past and the beginnings that led to the current circumstances; it paves the way for descriptive research.
- Descriptive research aims to investigate what is currently occurring, but not to rule as the fact of a value judgment of being good or bad. Although it is used more than other types of research, it is difficult to prove the causal relationship. The research depends on the interpretation of the results, largely based on the time of the study, sample size etc. Descriptive research can be divided into six types: scanning research; content analysis; analysis work; examine relations; developmental studies; and case studies.

- Empirical research concerns knowing what may control certain factors. This may be the best way to investigate problems. It is characterized by an active researcher in the research. It aims to establish a causal relationship between the variables in the design of the pilot (Odeh and Malkawi, 1992).

3.1. 2 Types of Research Methods

There are a number of different types of research methodology, some of which lend themselves more than others to one paradigm. Therefore, the type of methodology should reflect the assumptions of the research paradigm.

Research methods can be classified in several ways, the most important way being between qualitative and quantitative methods. There are also two main research paradigms or philosophies, the two paradigms can be labelled positivist and phenomenological. Some authors prefer to use the term interpretive rather than phenomenological (Hussey and Hussey, 1997).

Quantitative research has an important background in scientific research, where research aims to establish or confirm the truth of a theory and the reality of what happens. It has proved increasingly, to be unable to secure a comprehensive picture, particularly in the area of social sciences, nor do they reflect the views of the participants and take their positions into account. It thus underestimates the complexity of the experimental conditions (Sarantakos, 2005).

Qualitative research has developed to address such topics. Qualitative researchers wonder on the idea of "truth" or indeed the whole, and debates whether anything can be proved and confirmed. Some groups can give different results. The same applies for: the timing of the research; the attitudes of individuals; the members of the research team; the use of other methods. From this standpoint, no "single truth" can be reached from research (Mason, 2002).

Quantitative research evolved primarily in the natural sciences to study natural phenomena. The characteristics of these methods includes: testing theories; creating built conditions to control variables; trying to explain natural phenomena as a result of a theory; a viewpoint of the interior; and it is essential to study natural phenomena in terms of assumptions.

Qualitative researches evolved primarily in the social sciences to study social phenomena, which includes: case study research; action research; and ethnography. Qualitative methodologies demonstrate many characteristic elements such as the following:

- It assumes that the social world is always a human creation;
- It studies a small number of respondents;
- It employs no random sampling techniques;
- It uses no quantitative measures or variables;
- It aims to study reality from the inside not from outside;
- It leads to an interpretive inquiry (Sarantakos, 2005).

3.1. 3 Data Collection Methods

The "data" in language means:

> *"Factual information used to make decisions or other information can be derived from it"* (Ghattas, 2000).

Data can be collected in various ways, in different situations and from different sources; which may be primary or secondary. Primary sources of data are obtained from individuals or groups that are taking a view on certain issues whereas secondary sources are the data that has been collected and already published in a formal format, such as annual reports, journals and textbooks. Yin (1994) stated that six important sources of evidence can be used: documentation; archival records; interviews; direct observation; participant observation; and physical artifacts.

In any research, either science or social, data can be collected by using many methods and these methods can be classified in several ways. For example: Jankowicz (2000) classified the main methods of data-collection as: personal interviews; postal questionnaires; observational techniques; and the analysis of documents. Sarantakos (2005) added more methods as indirect methods of data collection, such as: physiological methods; documentary methods; the biographical method; and content analysis.

Waters (1998) stated that data can be collected by observation in many cases and in other cases it can be collected by asking people relevant questions using the following methods: personal interview; telephone interview; postal survey; panel survey; and longitudinal survey. Also he suggests five possible objectives for a survey include:

- To find if a respondent is aware of an issue;
- To get a general feeling about an issue;
- To get views about specific points on an issue;
- To get reasons for a respondent's views;
- To find out how strongly these views are held. (Waters, 1998: 82)

Accordingly to Waters (1998), Sarantakos (2005) and many other authors; observation is the best way to directly study several types of phenomena and does not require a great effort to be made by the group. It enables a researcher to gather all the data under familiar behavioural conditions, but on the other hand, individuals may deliberately mislead the researcher. It is also governed by factors which have been previously defined as temporal and geographical. Sarantakos (2005) classified forms of observation in many ways, the following are examples of these types: structured; unstructured; open; hidden; active; passive; direct; indirect; natural; and laboratory observations. In any of these forms, the observation follows a number of steps starting with a general definition of the topic then defining the context, the proceedings and is finished by gathering the data.

The use of any method of data collection is subject to the quality of the approach taken in the research. Three forms of data collection methods are used in this research study, namely: interview (justified in section 3.2); questionnaire (justified in section 3.3); and document analysis (justified in section 3.4). Each method used is to collect different types of data.

3. 2 Survey to Establish "Capital Market Needs in Libya?"

The next section provides the justifications for the interview approach adopted in this research.

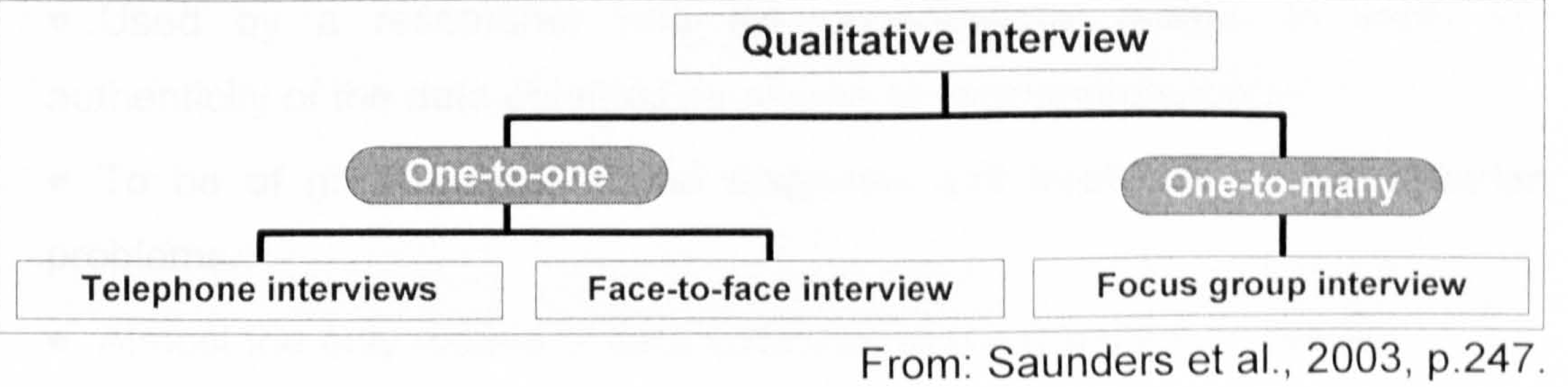
3.2. 1 Interview Method

In social research, many researchers preferred personal interviews as the most powerful and useful method of social scientific survey research because it enables the researcher to gather both sociological facts and psychological facts (Abdullahi, 1993). Interview might be defined as,

> *"A method of data collection that gathers information through oral questioning".* (Sarantakos, 2005).

In the process of collecting data through interviews there are a number of steps which might be followed, and there is a general level of agreement that these include the following steps: seeking the respondents; asking and recording the questions; field supervision; checks; and completion of the interview (Sarantakos, 2005).

Interviews in qualitative research are characterised by many special criteria: open-ended questions are used only when questioning one person at a time; the question structure is not fixed; and the interviewer has more freedom (Sarantakos, 2005). Also the interview may be classified into two forms: one-to-one; or one-to-many interviews; as illustrated in figure 3-1.



From: Saunders et al., 2003, p.247.

Figure 3- 1: Forms of Qualitative Interview

The one-to-one interview is the most common form of interview which involves a meeting between one researcher and one informant face-to-face or by telephone (Denscombe, 2003).

Most typologies used by many authors (Sarantakos, 2005) distinguished three types of interviews in social research. These include: structured interview; semi structure interview; and unstructured interview. May (2001) added another type which is the focus interviews. The following are definitions of these interview types:

Structured Interviews:

> *"An interview in which questions to be asked, their sequence, and the detailed information to be gathered are all predetermined; used where maximum consistency across interviews and interviewees is needed"* (GAO, 1991:104).

Semi structured Interviews:

> *"Interviews with a given structure but with relative freedom to formulate the questions and to determine their order and presentation"* (Sarantakos, 2005)

Unstructured Interviews:

> *"An informal interview, not structured by a standard list of questions. Fieldworkers are free to deal with the topics of interest in any order and to phrase their questions as they think best."* (Nichols, 1991:131)

The following are some of the advantages of using interviews as a collection method:

- The best means for selecting and evaluating personal qualities;
- Used by a researcher with the observational means to verify the authenticity of the data obtained by means of correspondence;
- To be of great benefit in the diagnosis and treatment of humanitarian problems;
- Almost the only means of data collection in communities of illiteracy.

Despite the advantages, interview methods demonstrate some disadvantages; the most common are the following:

- More costly and time consuming;
- The possibility of very high personal bias in the data;
- Success obscures to a large extent, the willingness of the respondent to cooperate.

The data in this part was collected using structured face to face interviews with Libyan experts from the following groups: Libyan Government; Libyan Public & Private Banks, Libyan Public & Private Companies; Academics and Experts. Before conducting any interview, the researcher sent a letter to obtain permission (a copy is presented in Appendix No. 1).

Structured interviews are used in this research to get the views of the target population, and also to understand an interviewee's experiences and impressions.

The interview was designed to take no more than approximately 30 minutes and because of the sensitive position of many interviewees, the interviews where not taped. All interviews have taken place face to face, with the exception of the interview with the Governor of the Central Bank of Libya. This was started in the same way then the researcher left the interview questions and collected the written answers later.

3.2. 2 The Interview Questions

The interview questions include two kinds of questions asked to all participants. The first kind: questions about the interviewee's position, experience and qualifications. The second part: includes twenty questions to survey the perceptions of Libyan experts about Stock Markets and Accounting Disclosure.

Since the interviews were held in Arabic, the original interview questions were written in Arabic. In Appendix No. 2 a translated version of the original interview questions is provided. The questions are divided into four sections. They cover the following themes:

- The importance of the capital market in Libya and the negative effects of the absence of the capital market in Libya;
- The expected role of the capital market in the Libyan economy;
- The drafting of policies of the capital market in Libya;
- The impact of the level of accounting disclosure of Libyan companies on establishing a capital market in Libya.

3.2. 3 The Interviews: Sample and Limitations

The researcher planned to conduct 25 interviews, 5 from each of the following groups: Libyan Government; Libyan Banks; Libyan Companies; Academic and finally Professional. Just 23 interviews, with 24 participants, were completed: 22 interviews between June and July 2004; and one more interview in August 2006. The reason being there was limited time and resources for data transcription whilst in Libya.

The following list of interviewees is divided by the groups:

- **Libyan Government Group:**; Dr. A. Menesi; Dr. J. Elhassy; Mr. A. Alsherkase; and Mr. G. Guider; Mr. S. Elswohomi; and Dr. Faker Elfakeri;
- **Libyan Banks Group:** Dr. S. El-Arbah; Mr. M. Albargati; Mr. A. Balkhair; Mr. J. Abdulmalek; and Mr. S. Algoroshey;
- **Libyan Companies Group:** Dr. S. Bengharbia; Dr. A. Elbadry; Mr. G. Alasta; Mr. A. Elsahely; and Mr. N. Albakoush;
- **Academic Group:** Dr. A. Elfeituri, Dr. M. Badi; Dr. A. Busniena; and Mr. R. Sowideeq;
- **Professional Group:** Dr. A. Altarhoune; Mr. M. Anower; Mr. T. Elhousady; and Mr. M. Abseer.

All respondents have at least a university degree in related subjects. More specifically ten have a PhD (2 in Economics, 6 in Accounting, 1 in Law and 1 in

Management); six have an MSc in Accounting; six have a BSc (3 in Accounting, 1 in Engineering, 1 in Economy) and one has a BA in Law.

The sample was to a degree – prescriptive. The holders of particular roles were interviewed. Many of the interviewees were invited to participate in the research. Given this prescriptive sample, the researcher is satisfied that all reasonably practical steps have been taken to obtain authentic and unbiased responses. The interviews were not recorded- written notes were taken and following this details were transcribed in detail for the each interview. The responses when used in the rescore are not attributed to individuals. The field notes have been recorded to a c.d., but have remained confidential to the researcher.

This total of 24 interviews achieved 96% of the initial target sample. The coverage was comprehensive and the sample covered the key personal in the development of the capital markets in Libya.

3. 3 Measuring of the Information Disclosure

The second objective of this study is to define the information disclosure of Libyan companies. An important question arises, of how the extent of disclosure can be measured? Cooke and Wallace (1989) stated that

> *"Financial disclosure is an abstract concept that can not be measured directly."* (Cooke and Wallace, 1989:51)

It does not possess inherent specifications by which one can indicate its intensity or quality, like the capacity of a car. However, they argued that a suitable proxy such as an index of disclosure can be used to gain insight into the extent of information disclosed by firms.

Additionally, Marston and Shrives (1991) reported that:

> *"A number of research projects over the years have made use of a disclosure index as a research tool. One test of the usefulness of a research tool is the extent to which it is used. In this case it has persisted over time, from the 1960s to the present, and has been used by many different researchers. A research tool will not continue to be used if it produces poor results. The disclosure index has provided researchers*

with the expected answers to their hypotheses in many cases. If company information disclosure continues as a focus of research it is likely that the disclosure index will continue to be used." (Martson and Shrives, 1991:207)

3.3. 1 Questionnaire Method

The questionnaire is the cheapest way to collect data on a particular topic through a very large sample but it can be expensive in terms of design and extracting results. Because of this, it is important to know that the effort to get the design of the questionnaire, the questions set, size and form inevitably will give the data that can be used to take a particular decision on the issue under study. It is important that the preparation of the questionnaire is completed in stages beginning with the definition of things that will be tested and completed by how extraction of results will be achieved. Each stage must be designed very carefully, because the final outcome depends on the interdependence of all stages.

Questionnaires can be administered in three forms: postal; by fax; or via email. The questionnaire can contain a variety of question formats. According to Denscombe (2003) there are nine types of questions that might be included in any questionnaire: a statement; a list; a "yes" or "no" answer; agree/disagree with a statement; choose from a list of options; rank order; degree of agreement and disagreement (the Likert Scale); rate items; and feeling about a topic (the semantic differential).

The closed question type is most commonly used in questionnaires because of its advantages: specific answers; relatively complete responses; the clarity of meanings and connotations; and they facilitate the process of classification. However, there are many disadvantages such as: a question may be answered in a haphazard way and it is difficult to verify the veracity of the answer.

In open-ended questions, the respondents have great freedom to answer the questions. They are used when there are difficulties in determining the array of possible answers and are very important to help the respondents to feel important as they can give the answer they prefer.

The following lists the advantages and disadvantages respectively of using the questionnaire as a data collection method:

- Cheaper than any other methods;
- Offer greater assurance of anonymity;
- Produces quick results;
- Completed at the respondent's convenience;
- Information can be obtained from a large number of individuals;
- Researcher cannot note and record the reactions of respondents;
- Cannot be used in a community, that does not have a command of reading;
- The respondents return rate is always very low.

3.3. 2 Design of the Questionnaire

The first step in achieving this was to prepare a questionnaire to survey the most important items which should be included in the annual reports issued by Libyan companies. The reason for this step was due to the absence of Libyan accounting standards and Stock Market, both of which, normally, determine the disclosure requirements. After analysis of the data collected by the questionnaire, the results were used to develop a disclosure index in Libya which included the most important items which should be enclosed.

The questionnaire was divided into two parts (a copy is presented in Appendix No. 3). The first part includes five standard demographic questions about the respondent. In the second part in total there are 100 items. 96 items of information that are likely to form the disclosure indices and that are expected to be included in the annual financial reports and statements. In addition four free items to which respondents can add extra items they think are important that have been missed from the listing.

3.3. 3 List of Items

The selection of items was the first step in the development of the questionnaire design. The number of items that might be disclosed in the corporate annual reports is very large. Corporate annual reports include a wide range of qualitative and quantitative information to help a variety of user groups when making their decisions. Due to the fact that we do not know the exact information desired by all user groups an initial list of all possible items should be constructed. The selection was not limited to the financial statements but rather covered the entire contents of the annual report. Also, because there is no general theory regarding the number and selection of items, previous studies often used a large list of disclosures and the number of items included in the check list (or scoring sheet) was seen to vary from 17 (Barrett, 1977) to 289 (Spero, 1979).

In this study, the initial index was prepared in accordance with the International Accounting Standards (IASs) and many previous studies. That is, studies prepared by: Al-Mulhem, A. (1997), Street, D. and Bryant, S. (2000), Coombs, H. and Tayib, M. (1998), El-Gazzar, S., Jacob, R. and Finn, P. (1999) Naser K. and Nuseibeh, R. (2003) and Archambault, J. and Archambault, M. (2003). For the purpose of this research, as mentioned above, a list of 96 disclosure items that a company may be expected to report on was selected and these formed the basis for the aggregate index.

3.3. 4 Scoring of the Initial Disclosure Index

After determining the list of items, a scoring sheet was constructed to test the importance of items that were included in the questionnaire by investigating the views of different user groups. The respondents were asked to judge the importance of each item of information on a five point Likert numerical scale reflecting the perceived importance of an item of information appearing in the construction companies' annual report. Using the scale, a respondent could assign a value of:

(0) *Not at all important*..........................(should not be disclosed)

(1) *Not important*.....should be disclosed but is of minor importance)

(2) *Less importance or unimportant*.......(Intermediate importance)

(3) *Important*........(should be disclosed and item is very important)

(4) *Very important*...................(it is essential to disclose this item)

The mean scores received by each item of information, as perceived by the respondents will be used as weights in the weighted disclosure index against which the annual reports were examined to establish the extent of disclosure by the sample companies.

This scale is similar to most of the previous studies which used a five point scale. It was used before at 0 to 4 by authors (Buzby, 1974 and 1975; Barrett, 1977; Benjamin and Stanga, 1977; Hooks et al., 2000). And at 1 to 5 in studies by (Baker and Haslam, 1973; Firth, 1979; McNally et al. 1982; Firer and Meth, 1986; Tong et al., 1990; Adhikari and Tondkar, 1992)

For example, in a study by Buzby (1974), the respondents were asked to rate each item of information on 0 to 4 scale with a "0" being assigned if the item was not considered necessary to appear in an annual report and a "4" if it was considered essential to appear in an annual report.

3.3. 5 The Questionnaire Sample

The primary aim of the questionnaire was to determine the relative importance of items included in the annual reports by a sample of different users. The sample selected covered a wide range of annual reports' users, located mainly in the two biggest cities in Libya; namely Tripoli (the capital city) and Benghazi (the second largest city). It is assumed that any sample selected from these cities will be representative of the Libyan population. The reasons for this assumption are derived from the fact that the population of both together is almost half of the total Libyan population and most economic activities are conducted within these cities. In addition, most of the head offices of corporations, banks, governmental agencies, universities and accounting firms are located in these cities.

Previous studies focused mainly on six types of users groups, namely: investors; creditors; financial analysts; academics; professional accountants; and managers. In this study, the sample includes a Libyan professional from four groups: Chartered Accountants; Academic staff; Top Management; and Governmental Auditors.

As will be mentioned later, the sample from the Libyan companies contains 45 companies, as a result of that the researcher chose the same number of respondents from each of two groups: Chartered Accountants and Top Management at these companies. The Academic staff group includes all academic staff in the accounting departments at the two biggest universities in *Libya Garyounis (in Benghazi city) and* Alfateh (in Tripoli city) and totaled 60.

Finally, the selected sample includes government agencies *in Libya*. An important reason for this is that the government uses information included in the corporate annual reports to report the economic development and growth for the country as a whole. The Governmental Auditors group includes all auditors at the Public Control Committee and Tax Department in the sample cities and totaled 80.

Therefore the total sample was 230. The various groups of respondents and the responses of the sample of respondents are shown in Table 3-1. It can be seen from this table that the average overall rate of response for all groups was 64% and the highest response rate group was from the Chartered Accountants (82%).

Table 3-1 The Respondents by Groups

Groups	**Sample size**	**Response**		**Percentage (To total)**
		No.	**Rate**	
Chartered Accountants (**CA**)	45	37	82 %	25 %
Academic staff (**AS**)	60	42	70 %	29 %
Top Management (**TM**)	45	25	56 %	17 %
Governmental Auditors (**GA**)	80	43	54 %	29 %
Total	**230**	**147**	**64 %**	**100 %**

3.3. 6 Development of the Disclosure Index

As mentioned earlier, the second part of the questionnaire presents the initial index draft which is divided into five parts and includes 96 items. In order for an item to be included in the final index it should have a mean of three or more points out of four.

This approach has been used in several prior studies such as; Buzby (1975), Barrett (1977), Benjamin and Stanga (1977), Al-Mulhem (1997), Hooks et al. (2000) and many other authors.

3. 4 Examine the Level of Disclosure

The third objective of this study is to examine the level of disclosure in Libyan construction companies. As well as to survey the items disclosed by these companies by using the document analysis method.

3.4. 1 Documentary Method

Interviews and questionnaires are samples of direct methods of data collection; on the other hand, there are many indirect methods such as physiological methods, disguised methods and documentary methods. The documentary sources include written sources such as books, journals, letters, newspapers, magazines, diaries, government publications and web site pages. There are un-written types i.e. pictures, artifacts and music, etc. (Denscombe, 2003).

It is unusual that any research study is carried out without employing some form of documentary method. The data collected from documents can be analysed by the content analysis method (Sarantakos, 2005). A brief summary of the advantages and disadvantages of the documentary method is listed below, the advantages are:

- A huge amount of high quality information is held in documents;
- Normally access to the sources is quick and easy with low-cost;

- A source of data is available in a form that can be checked by others;
- The documents are produced without being requested.

Whereas, the disadvantages are:

- The data has been produced for other purposes and not for the specific aims of the investigation;
- Researchers need to evaluate the authority of the source and the procedures used to produce the original data;
- Some of documents are not easily accessible;
- The reliability of some documents is questionable and some are biased.

3.4. 2 Developing a Scoring Mechanism

Different approaches to developing a scoring mechanism might be applied. Copeland and Fredricks (1968) developed a scheme in which qualitative items were rated according to their degree of specificity. This approach is based on the number of words used to describe an item disclosed. Such an approach results in a scale of disclosure which varies between Zero and One, but the allocation of scores is reported to be highly subjective (Cooke, 1989).

The most commonly used approach, is a dichotomous procedure in which an item scores *One* if it is disclosed and *Zero* if it is not disclosed. This approach has been used in several prior studies such as; Cerf (1961), Singhvi and Desai (1971), Wallace (1987) Cooke (1989), Ahmed and Nicholls (1994), Hossain et al (1995), Raffournier (1995) and many other authors.

In this study, after establishing the list of items of information (via the questionnaire), a checklist was prepared to assess the extent of disclosure exhibited by each of the sample companies. The model used in this study is un-weighted; that is based on an assumption that each item of disclosure is equally important.

The checklist (a copy is presented in Appendix No. 4) includes three parts; firstly some information about the company which includes; the Name of

Company, Date of Financial Statements, Legal Status, Name of Auditor, Date of Auditor's Report and Date of Publication.

Then the second part, the disclosure index includes the 74 items, which were previously established and the table designed accordingly to the Disclosure Checklist published in 2002 by the International Accounting Standards Board. It includes six boxes; the part, the item number, disclosure items and one of other three boxes headed by (Y, NA or ND) should be entered for each item, as following:

(Y) If the item encloses and the disclosure has been made;

(NA) if not applicable (because not every item is necessarily applicable to) or;

(ND) if not disclosed.

Finally, the numbers of items entered under each box are provided as well as calculating the disclosure rate by using the function:

$$\textbf{The Disclosure Rate (R)} = \frac{\mathbf{Y}}{\mathbf{(T - NA)}}$$

Where; Y = the numbers of items incused;

T = total items (74) and

NA= the number of non applicable items.

3.4. 3 The Sample of Annual Reports

Information is disclosed by companies in a number of ways. The main disclosure vehicle is the annual report. In addition, there may be interim and quarterly reports and other printed material. This research is concerned exclusively with the information disclosed in the annual report.

The period of the study is the financial year 2002/2003 and the sample of companies whose annual reports were examined for disclosure quality includes 45 Libyan construction companies (Table 3-2).

Currently in Libya there are more than 200 construction companies operating, most of which are private companies. Of these only 45 companies are covered in this study. The annual reports of the sample companies were collected from the tax departments in Tripoli and Benghazi because most companies refused to give the researcher a copy of their annual reports. The reasons for excluding companies from the sample are as follows:

- Some companies have been established within the last three years and have not yet begun their reporting activities;
- The companies which are government owned are excluded because they are hugely different in capital size compared with private companies;
- The annual reports of some companies are not available for the period of study;
- Companies with capital of less than one million Libyan Dinar are excluded.

3.4. 4 The Level of Companies' Disclosure in Libya and Egypt

The final main objective of this study is to compare the Level of Disclosure of Libyan companies with Egyptian companies. Libya and Egypt are both part of the Arab world and have many similarities, but one important difference is the stock market. In Egypt it was established more than one hundred years ago, whereas in Libya there is an absence of an official capital market.

The results of the previous objectives are used in achieving this objective, firstly by using the same method (Checklist) and also by using the results related to examine of the disclosure rate of Libyan companies and the chosen top ten companies.

The sample from Egyptian companies covers the top ten construction companies listed in Cairo & Alexandria stock exchanges (Table 3-3). The annual reports of these companies were collected from the "Egypt for Information Dissemination Company" in Cairo, for the financial year 2002/2003.

Table 3-2 List of Libyan Companies **(1)**

NO.	Company Name	Arabic Name
1	Akakous Company for Construction and Real Estate Investment	شركة اكاكس للمقاولات
2	Alatawes Company for Construction and Real Estate Investment	شركة الاطواس للمقاولات
3	Alaman Company for Construction and Real Estate Investment	شركة الامان للمقاولات
4	Alahram Company for Construction and Real Estate Investment	شركة الاهرام للمقاولات
5	Alaotad Company for Construction and Real Estate Investment	شركة الاوتاد للمقاولات
6	Albena Alegtesady Company for Construction and Real Estate Invest.	شركة البناء الاقتصادي للمقاولات
7	Albida Company for Construction and Real Estate Investment	شركة البيداء للمقاولات
8	Altasoker Company for Construction and Real Estate Investment	شركة التصخر للمقاولات
9	Alhagar Alsenaey Company for Construction and Real Estate Invest.	شركة الحجر الصناعي للمقاولات
10	Alragobah Company for Construction and Real Estate Investment	شركة الراقوبة للمقاولات
11	Alsadeem Company for Construction and Real Estate Investment	شركة السديم للمقاولات
12	Alshames Company for Construction and Real Estate Investment	شركة الشمس للمقاولات
13	Alsafah Company for Construction and Real Estate Investment	شركة الصفاء للمقاولات
14	Altaey Company for Construction and Real Estate Investment	شركة الطائي للمقاولات
15	Aldaher Alabeed Company for Construction and Real Estate Invest.	شركة الظاهر الابيض للمقاولات
16	Alarf Company for Construction and Real Estate Investment	شركة العارف للمقاولات
17	Alarabiah Company for Construction and Real Estate Investment	شركة العربية للمقاولات
18	Alfareeq Alakhder Company for Construction and Real Estate Invest.	شركة الفريق الاخضر للمقاولات
19	Alfeed Company for Construction and Real Estate Investment	شركة الفيض للمقاولات
20	Libyan Company for Construction and Real Estate Investment	شركة الليبية للمقاولات
21	Almetahedon Company for Construction and Real Estate Investment	شركة المتحدون للمقاولات
22	Almahaour Company for Construction and Real Estate Investment	شركة المحاور للمقاولات
23	Almadaen Company for Construction and Real Estate Investment	شركة المدائن للمقاولات
24	Almoden Alhadeetah Company for Construction and Real Estate Invest.	شركة المدن الحديثة للمقاولات

Table 3-2 List of Libyan Companies **(2)**

NO.	Company Name	Arabic
25	Almadeenah Company for Construction and Real Estate Investment	شركة المدينة للمقاولات
26	Almater Company for Construction and Real Estate Investment	شركة المطر للمقاولات
27	Almoamar Company for Construction and Real Estate Investment	شركة المعمار للمقاولات
28	Almgareen Company for Construction and Real Estate Investment	شركة المقارين للمقاولات
29	Almanarah Company for Construction and Real Estate Investment	شركة المنارة للمقاولات
30	Almeeqat Company for Construction and Real Estate Investment	شركة الميقات للمقاولات
31	Alnamah Company for Construction and Real Estate Investment	شركة النماء للمقاولات
32	Alnmareg Company for Construction and Real Estate Investment	شركة النمارق للمقاولات
33	Alnhdah Company for Construction and Real Estate Investment	شركة النهضة للمقاولات
34	Alnofileeah Company for Construction and Real Estate Investment	شركة النوفلية للمقاولات
35	Alneeroz Company for Construction and Real Estate Investment	شركة النيروز للمقاولات
36	Alhandaseeh Company for Construction and Real Estate Investment	شركة الهندسية للمقاولات
37	Bzeemah Company for Construction and Real Estate Investment	شركة بزيمة للمقاولات
38	BuHrishemah Company for Construction and Real Estate Investment	شركة بوهريشيمة للمقاولات
39	Alweefak Garden Company for Construction and Real Estate Invest.	شركة حدائق الوفاق للمقاولات
40	Dargees Company for Construction and Real Estate Investment	شركة دارغيس للمقاولات
41	Dofan Company for Construction and Real Estate Investment	شركة دوفان للمقاولات
42	Smaloos Company for Construction and Real Estate Investment	شركة سمالوس للمقاولات
43	Wadi Alfaj Company for Construction and Real Estate Investment	شركة وادي الفج للمقاولات
44	Wadi Samst Company for Construction and Real Estate Investment	شركة وادي سامست للمقاولات
45	Usberides Company for Construction and Real Estate Investment	شركة يوسبيريدس للمقاولات

Table 3-3 List of Egyptian Companies

NO.	Company Name	Listing Date	Reuters	ISIN Code	Arabic Name
1	Al Yasmin International Trade & Contracting	27/09/1995	EGS21271C019	YITC.CA	الياسمين العالمية للتجارة والمقاولات
2	Mediterranean Contracting	03/03/1997	EGS21201C016	MCNG.CA	البحر المتوسط للمقاولات
3	Upper Egypt Contracting	07/05/1997	EGS21531C016	UEGC.CA	الصعيد العامة للمقاولات
4	Giza General Contracting	19/06/1997	EGS21541C015	GGCC.CA	الجيزةالعامة للمقاولات
5	IMAC Contracting	23/12/1998	EGS22041C015	IMCO.CA	شركة ايماك للمقاولات
6	Egyptian Contracting (Mokhtar Ibrahim)	31/03/1998	EGS22181C019	ECMI.CA	المقاولات المصريه-مختار ابراهيم
7	Napcotract Contracting	11/11/1998	EGS65191C016	NARC.CA	نابكنتراكت للمقاولات
8	Specialized Industries & Contracting	06/02/1996	EGS22051C014	SICC.CA	المقاولات والصناعات التخصصية
9	Mena Construction & Real Estate Investment	27/09/1995	EGS65441C015	MENA.CA	مينا للاستثمار السياحي والعقاري
10	Arabian International Construction	02/02/1995	EGS65481C011	CA.EICD	الشركة العربية للتعمير

3. 5 Summary

This chapter highlighted the procedural matters surrounding the research. It gave information about Research Methodology in general and a comparison of data collecting methods. It then provided a design of this research study by describing the overall research methodology of the study which includes the design of interview questions, the design of the questionnaire and the method of analysis of the published accounts.

To conduct a questionnaire survey in a developing country like Libya is a difficult task. For example, the response rate may be very low if the questionnaires are mailed to the respondents and that is why the questionnaires are collected by hand in the present study. The construction of the questionnaire and the checklist for un-weighted disclosure indices have been described. Attention has been given to the criteria and procedures on which annual reports were collected for the sample companies.

Before proceeding to undertake the research project using the above techniques, the researcher believes it necessary to conduct a pilot study in which the method can be tested. As emphasized by Oppenheim (2000),

> *"questionnaires do not emerge fully fledged; they have to be created or adopted, fashioned and developed to maturity after many abortive test flights"* (Oppenheim, 2000)

Apart from establishing the intelligibility and appropriateness of the interview instruments, or a questionnaire, a pilot study helps the researcher to know the approximate time required for an interview and, on occasion, it suggests new ideas and questions to be included in the interview.

In this research, in order to achieve the main aims of the study, as mentioned earlier in chapter 1, seven research objectives have been designed. Figure 3-2 shows the connection between research objectives, questions and the methods used to answer every question.

Figure 3- 2: Research Objectives, Questions and Data Collection Methods

Table 3-4 shows the link between the research questions and the data collection methods used in this research.

Table 3-4 Research Questions and Data Collection Methods

Research Question	Data Collection Method
R Q 1: What forms of financial markets exist in Libya? If there are any, are they sufficient?	Interview (Questions: 1,2,10,11,12,14 and15)
R Q 2: What are the negative effects of the absence of a capital market in Libya?	Interview (Questions:4 and 5)
R Q 3: What roles will the capital market play in the Libyan economy?	Interview (Questions:8 and 9)
R Q 4: What is the applicability and obstacles to establishing a capital market in Libya?	Interview (Questions:6 and 7)
R Q 5: What is the level of Libyan companies' accounting disclosure?	Check list
R Q 6: How can a special disclosure index be prepared for Libyan companies?	Questionnaire
R Q 7: Will the increased level of accounting disclosure be a success factor in establishing a capital market in Libya?	Interview (Questions:17,18,19 and 20)

CHAPTER 4

AN EMPIRICAL STUDY OF THE CAPITAL MARKET AND ACCOUNTING DISCLOSURE IN LIBYA

CHAPTER 4: AN EMPIRICAL STUDY OF THE CAPITAL MARKET AND ACCOUNTING DISCLOSURE IN LIBYA

This chapter encompasses the analysis and interpretation of data gathered from this study, as outlined in the methodology chapter. It is divided into the two areas investigated: Capital Markets and Accounting Disclosure in Libya. Specifically, the chapter contains the following parts:

- An analysis of the interviews conducted with Libyan experts to investigate the impact of an emerging capital market on the Libyan economy;
- Survey items disclosed by Libyan companies and calculations of the disclosure rates of these companies in comparison to the level of disclosure of Egyptian companies;
- Summary.

4. 1 THE CAPITAL MARKET IN LIBYA

This part is trying to examine "to what extent is the capital market needed in Libya?" The data of this main empirical part was collected by personal interviews, which were conducted with Libyan experts.

The first section provides some information about the capital market in Libya. The second section explains the interview samples. The third section reviews the Interview Questions and the final section includes an analysis of the interviews and the perceptions of Libyan experts about stock markets in Libya.

4.1. 1 Introduction

Libya has recently started taking many steps to becoming a Market Economy. The path of transition from planned economy to market economy is not easy for any country, but the best thing is that there have been a number of similarities in the way in which many other countries have gone through the transition to market economies. This allows Libya to look at how such economies develop and learn something about what is needed to ensure it works smoothly. Although there are many successful factors of the new Libyan programmes, there are many obstacles toward it; an important one is the absence of the capital market because of the important role it plays in economic development.

The establishment of the first stock company in Libya goes back to its independence in 1951. When the Libyan Commercial Code (LCC) was enacted, in the year 1953, it allowed the trading of stocks. However, stock trading did not really begin in Libya until the 1990's, which then witnessed a substantial increase in the number of stock companies. Now Libya, as many other countries, has made remarkable progress in privatising their enterprises by transferring ownership from the state to private citizens. This has created many new shareholders. Libya needs to develop the stock market and related institutions to handle the large volume of share trading that is likely to occur after further privatisation.

In July 2002, the Libyan General Peoples Committee issued decision 49, 2002 concerning the executive regulations of the Law 21, 2001. Articles 48-50 of this decision allow the establishment of a stock market in Libya. Based on this decision, and by decision 242, 2003, the committee gave the Libyan Central Bank the right to establish a stock market. However, a later decision 105, 2005 cancelled that right and gave it to the Libyan General Peoples Committee for Economy and Trade. The stock market did not start working until the end of 2006.

4.1. 2 The Description of Interviews and Interviewees

As mentioned earlier in chapter 3, 22 interviews were conducted between June and July 2004 and one additional interview was conducted with two participants in August 2006. Each interview included 20 questions and took, on average, 30 minutes. All twenty-four participants in this research provided a valuable and interesting insight for this research project. Table 4-1 provides some information concerns the interviewees (see Appendix No. 5 for more information).

Table 4- 1 Some Information about the Interviewees

Interviewee	Official Title	Qualification Level	Qualification Place	Group
Mr. S. Elswohomi	The Chairman (elect) of the Board of Directors of The Libyan Stock Market	MSc in Accounting	Libya	Libyan Government Group
Dr. F. Elfakeri	Vice Chairman (elect) of the Board of Directors of The Libyan Stock Market	PhD in Accounting	UK	Libyan Government Group
Dr. S. Bengharbia	Chairman of the Libya Insurance Company	PhD in Accounting	USA	Libyan Companies Group
Mr. A. Balkhair	Vice Chairman of the Board of Directors of the Libyan National Commercial Bank	MSc in Accounting	USA	Libyan Banks Group
Mr. S. Algoroshey	Vice Chairman of The National Benghazi Bank	BSc in Accounting	Libya	Libyan Banks Group
Dr. S. Busniena	The Head of the Management Department at the Academy for Higher Studies	PhD in Management	USA	Academic Group
Dr. A. Elbadry	The Chairman of the Libyan Company for Engineering Consultants	PhD in Accounting	Libya	Libyan Companies Group
Mr. S. Alsherkase	Secretary of the People's Committee for Tourism, Shabiat Benghazi	MSc in Accounting	Hungary	Libyan Government Group
Mr. T. Elhousady	Legal Consultant			Professional Group
Dr. M. Badi	Professor of Accounting at the University of Garyounis	PhD in Accounting	USA	Academic Group
Dr. J. Elhassy	Director of the Tax Department, Finance Ministry	PhD in Accounting	USA	Libyan Government Group
Dr. A. Altarhoune	Lawyer and Professor of Commercial Law	PhD in Law	UK	Professional Group

Mr. M. Al Bargati	Vice Chairman of the Board of Directors of the Bank for Savings and Investment in Real Estate	MSc in Accounting	USA	Libyan Banks Group
Mr. R. Swedik	Lecturer of Accounting, Chartered Accountant, and Financial Expert	MSc in Accounting	USA	Academic Group
Dr. A. Elfeituri	Director of the Economic Research Centre	PhD in Economics	USA	Academic Group
Mr. G. Guider	Investment Department Manager, Libyan Foreign Investment Board	BSc in Civil Engineering	Libya	Libyan Government Group
Mr. A. Elsahely	Chairman of the General Company for Wires and Electrical Products (WEP)	BSc in Accounting	Libya	Libyan Companies Group
Mr. J. Abdulmalek	The Chairman of the Bank of Commerce & Development	MSc in Accounting	USA	Libyan Banks Group
Mr. M. Abseer	Board Member of the Libyan Businessmen Council			Professional Group
Dr. S El-Arbah	Account & Investment Division Manager in the Central Bank of Libya	PhD in Accounting	Hungary	Libyan Banks Group
Mr. J. Alasta	Chairman of the Assada Establishment for Trade and Investment	BSc in Accounting	Libya	Libyan Companies Group
Dr. A. Menesi	Governor of the Central Bank of Libya	PhD in Economics	Germany	Libyan Government Group
Mr. N. Albakoush	Chairman of the General Company for Textiles and Clothing (GTC)	BSc in Economics	Libya	Libyan Companies Group
Mr. M. Anower	Legal Consultant	BSc in Law	Libya	Professional Group

4.1. 3 The Data Collected by Interviews

A series of 20 open-ended interview questions were used to gather data concerning the research questions, related to this part of the study, from each participant within the research study.

The interview questions were divided into four sections. These covered the following themes: the importance of the capital market in Libya and the negative effects of the absence of the capital market in Libya; the expected role of the capital market in Libyan economy; the drawing of policies of the capital market in Libya; and the impact of the level of accounting disclosure of Libyan companies on establishing the capital market in Libya.

The Importance of Establishing a Capital Market in Libya

This part includes six questions related to the importance of establishing a capital market in Libya. Also about the Libyan environment in general, is it ready to establish a capital market or not? And also about the negative effects of the absence of the capital market in Libya.

According to the first question (Table 4-2) and the second question (Table 4-3), all interviewees said the stock market is very important to Libyan economic development because the absence of a stock market causes many negative effects. It has delayed many important reform programmes such as privatization programmes; attracting investment of foreign capital and establishing free zones. Some experts argued that it caused an increase in the number of bankrupt companies over many years.

Table 4- 2 Respondent's Answers to Question 1

QUESTION 1	***To what extent, do you think a capital market is needed in Libya?***	
Answer(s)	**Numbers**	**%**
Very Important	24	100%
Total	**24**	**100%**

Table 4- 3 Respondent's Answers to Question 2

QUESTION 2	*To what extent do you agree that there are many negative effects of the absence of a capital market in new Libyan economic steps?*	
Answer(s)	**Numbers**	**%**
Agree	24	100%
Total	**24**	**100%**

In response to the third question (Table 4-4); a strong majority of all respondents (83%) said that the Libyan environment is not ready yet to establish a capital market because many factors are not ready in Libya. On the other hand, just four participants believe that the Libyan environment is ready to establish a stock market.

Table 4- 4 Respondent's Answers to Question 3

QUESTION 3	*Do you believe that the environment is now conducive for the establishment of a market?*	
Answer(s)	**Numbers**	**%**
No (not ready)	20	83%
Yes (almost ready)	4	17%
Total	**24**	**100%**

The fourth question (Table 4-5) about the relation between the absence of the stock market and the increased number of bankrupt companies in Libya, most respondents' believe that there is no relation.

Table 4- 5 Respondent's Answers to Question 4

QUESTION 4	*Do you think the increase in the number of bankrupt companies has been caused by the absence of a capital market?*	
Answer(s)	**Numbers**	**%**
Agree	5	21%
Disagree	15	63%
No response	4	17%
Total	**24**	**100%**

In response to question 5 and question 6 (Table 4-6), several trends emerge from the interviewees about the most important factors to establishing an active stock market. They mirror as the most important obstacles to establishing a capital market in Libya. The experts called on the Libyan government and companies to provide many efforts toward establishing stock markets.

Table 4- 6 Respondent's Answers to Questions 5 and 6

QUESTION 5	***Could there be many obstacles to establishing a capital market in Libya. In your opinion, what are the important obstacles?***
QUESTION 6	***What are the important factors to establishing a successful capital market in Libya?***
No.	**List of Important Factors:**
1	Enact a special law concerning the capital market operations and building the structures of the Libyan stock market;
2	Review all laws and regulations related to economic activities and enact the important rules and regulations to de-regulating Libyan economic activities;
3	Improve the economic environment that supports the work of stock markets with improved public awareness about the role of the stock market in the economy;
4	Provide suitable education to prepare staff for working in the stock markets by developing curricula and methods of teaching financial and investment materials in Libyan universities;
5	Enact laws and regulations on disclosure and transparency;
6	Show support to the private sector to obtain the confidence of investors;
7	Organise and develop the accounting and auditing profession and compel companies to apply modern accounting systems;
8	The development and construction of economic indicators;
9	The creation of the Securities and Financial Markets Commission in Libya;
10	Review and improve the Libyan banking system;
11	The dissemination of culture and investment awareness;
12	Adopting modern systems of company organisation;
13	The development of an investment and financial analysis industry;
14	Encouraging the creation of financial information institutions and a financial press.

The Expected Role of the Capital Market

The second part asked participants to respond to two questions about the roles that the capital market will play in the Libyan economy.

Although there were a variety of responses given to interview question 7 (Table 4-7), all answers pointed toward the benefits that will support the development of the Libyan economy.

Table 4- 7 Respondent's Answers to Question 7

QUESTION 7	***The capital market plays an important role in developing the economy. What are the main roles of a capital market in Libya to developing its economy?***
No.	**List of Main Roles**
1	Offering many solutions to the problems that face the Libyan economy, such as: the weakness of the Libyan Dinar;
2	Encouragement of capital investments;
3	The reduction in inflation rates and accelerating economic growth rates;
4	Create new jobs and reduce unemployment rates;
5	Raising individual income levels;
6	Facilitate the creation of financial instruments to tend to personal and institutional savings;
7	All economic reform programmes would move faster than before;
8	Increased production and improving the level of competition between Libyan companies;
9	Motivate companies' management to improve its efficiency and cause it to increase profits and the growth of profit rates;
10	Provide companies with the opportunity to obtain finance from investors and also provide the investors with investment opportunities;
11	Improving the level of financial disclosure in the Libyan companies;
12	The contribution to reduce financing costs of ownership and debt;
13	Allowing liquidation of securities easily and provide liquidity to investors;
14	Reduce the risk of financial investment and provide the protection of investors, especially small investors;
15	Encouraging investors to invest in securities and control the circulation of stock market transactions;
16	Providing the actual evaluation of Libyan companies under privatisation.

The table provides a list of the most important roles and functions, as expressed by Libyan experts. The Libyan stock market might play the lead to develop the Libyan national economy. The benefits that might accrue to the Libyan companies and investors from the Libyan stock market will help by an indirect way to the improvement of the national economy.

In addition, some participants (13%) reported that the Libyan stock market will be one of the most important factors in attracting foreign investors to invest in Libya. On the other hand, most other participants disagreed with this statement because they believe that the foreign investors are looking for other factors (Table 4-8).

Table 4- 8 Respondent's Answers to Question 8

QUESTION 8	***To what extent do you think the Libyan capital market will be attracting a foreign capital market?***	
Answer(s)	**Numbers**	**%**
Disagree	14	58%
Neither	6	25%
Agree	4	17%
Total	**24**	**100%**

The drafting of policies for the capital market in Libya

This part includes eight questions that have been asked to interviewees about drafting suitable policies for the Libyan environment.

In response to the question 9 (Table 4-9) about the number of branches of the Libyan Stock market that should be open in Libyan cities, according to Libyan experts points of view, starting with one capital market in the capital city of Libya (Tripoli) is preferred. It might then open other branches in important cities like Benghazi, Sabha, Sirte, and Misurata. On the other hand, no respondents prefer to initially open more than one stock market in Libya.

Table 4- 9 Respondent's Answers to Question 9

QUESTION 9	***To what extent do you think there should be a stock market (at least a branch) in each of the important Libyan cities, or do you think just one market in the capital city would be enough.***	
Answer(s)	**Numbers**	**%**
One market in Tripoli without branches;	4	17%
One main market in Tripoli and branch in Benghazi;	14	58%
One main market in Tripoli and many branches in most biggest Libyan cities;	6	25%
Many stock markets.	0	0%
Total	**24**	**100%**

In response to questions 10 and 11 (Table 4-10), most participants believe that the market should be independent and not controlled by the Libyan Central Bank but it might be inspected by the Ministry of Financial Control or Ministry of Economy and Trade to protect the investors.

Table 4- 10 Respondent's Answers to Questions 10 and 11

QUESTION 10	***Many people say "the Libyan central bank should control the Libyan stock market" Do you agree with that? Why?***	
QUESTION 11	***If you disagree, do you think the capital market should be independent or controlled by others, such as the ministry of finance or ministry of financial control?***	
Answer(s)	**Numbers**	**%**
Controlled by Libyan Central Bank	3	12.5%
Independent without any control	6	25%
Independent and Inspected by the Ministry of Financial Control	6	25%
Independent and Inspected by the Ministry of Economy and Trade	9	37.5%
Total	**24**	**100%**

All respondents, in response to question 12 (Table 4-11), suggested that all companies, both private and public, might be listed on the stock market, if the basic conditions are available.

Table 4- 11 Respondent's Answers to Question 12

QUESTION 12	***When the Libyan capital market is started, do you think just the Private Companies should be registered in it, or all other companies and organisations should be registered?***	
Answer(s)	**Numbers**	**%**
All Companies	24	100%
Total	**24**	**100%**

Most experts (83 %) believe that Libyan banks must be banned from playing the role of primary market when the formal capital market is open (Table 4-12). The other participants differentiate between primary market operations and secondary market operations and they believe that the stock markets in Libya should focus on the circulation operation only and leave the issue operation to commercial banks.

Table 4- 12 Respondent's Answers to Question 13

QUESTION 13	***In Libya as well as in many countries the commercial banks play the role of primary capital markets, do you think that should be continued in the future or not?***	
Answer(s)	**Numbers**	**%**
No	20	83%
Yes	4	17%
Total	**24**	**100%**

The majority of interviewees (83 %), in response to question 14, felt that assistance from the International Finance Corporation and learning from the experience of other Arab countries in capital markets are essential to help Libya in establishing the market (Table 4-13).

Table 4- 13 Respondent's Answers to Question 14

QUESTION 14	***How important to the Libyan Stock Market is co-operation with the International Finance Corporation or one of the big international capital markets? Or working under the management of one of them?***	
Answer(s)	**Numbers**	**%**
Very important	20	83%
No response	4	17%
Total	**24**	**100%**

The question 15 (Table 4-14) about a small capital market as an office in the central bank, most respondents' believe that it was unsuccessful for many reasons.

Table 4- 14 Respondent's Answers to Question 15

QUESTION 15	***The Central Bank of Libya has issued, in 2004, a decision concerning establishment of a small capital market as an office in the central bank, what do you think about that?***	
Answer(s)	**Numbers**	**%**
Unsuccessful because it was not in the correct place	22	92%
Successful step towards building the Libyan Stock Market	2	8%
Total	**24**	**100%**

In response to question 16 (Table 4-15), respondents provided four different types of conditions that might be used as conditions to list any company on the Libyan Stock Market.

Table 4- 15 Respondent's Answers to Question 16

QUESTION 16	***Any capital market issues some rules and regulations about registering on it such as: capital; profit; total assets; and length of experience; which should be used in Libya?***
Answer(s)	**Numbers**
High level of profits	12
High capital value	8
Large total assets	7
Clear financial history	5

The Impact of the Level of Accounting Disclosure

The last part consists of four questions about the impact of the level of accounting disclosure of Libyan Companies in the establishment of a capital market in Libya.

According to Libyan experts, also as in the finance literature, the efficiency of the capital market depends on the availability of information to all investors on time with the minimum level of cost.

In response to question 17 about the level of accounting disclosure in Libyan companies, most of the participants felt that the level of disclosure in Libya is too low and very weak. Libyan companies should give more attention to their financial reports to raise the level of transparency (Table 4-16).

Table 4- 16 Respondent's Answers to Question 17

QUESTION 17	***Do you think the level of accounting disclosure in Libyan companies is enough to establish an efficient capital market in Libya?***	
Answer(s)	**Numbers**	**%**
Not enough	22	92%
No response	2	8%
Total	**24**	**100%**

According to respondent's answers to question 18 (Table 4-17), all the experts that answered this question, believe that the information published by Libyan companies is not enough and not available to all users on time. Most financial statements of companies are not published for many years or at least not audited. Some participants added that although there are a few disclosure requirements for the Libyan Commercial Code (1953), Libyan companies have not been complying with these requirements, and also that there is no institute in power to require companies to comply.

In addition, they believe that there are no issue tools such as financial magazines or newspapers and that might be a barrier towards establishing a capital market in Libya and this might cause a decrease in the efficiency of the Libyan Capital Market in the future.

Table 4- 17 Respondent's Answers to Question 18

QUESTION 18	***The efficiency of any capital market depends on the availability of information to all investors; do you think the information issue tools are available in Libya?***	
Answer(s)	**Numbers**	**%**
Not available	22	92%
No response	2	8%
Total	**24**	**100%**

According to respondent's answers to question 18 above, many of the interviewees believe that the level of accounting disclosure will improve automatically after the emergence of the stock market in Libya. In addition the majority provide a number of suggestions that might help Libyan companies to improve the level of accounting disclosure in Libyan companies as shown in Table 4-18.

Table 4- 18 Respondent's Answers to Question 19

QUESTION 19	***If you think that the level of accounting disclosure in Libyan companies is not enough, how can it be improved?***
No.	**Answer(s)**
1.	The Libyan accounting profession develops and adopts domestic accounting standards that are suitable for the country's environment;
2.	Libyan standards must be enacted by law and controlled by Libyan government and the Libyan Certified and Public Accountants Union;
3.	Support the Libyan Certified and Public Accountants Union to take leadership of the accounting profession in Libya;
4.	Comply with the international accounting standards in the near future;
5.	Creating institutions which provide information.

In response to the last interview question 20 (Table 4-19), half of the experts stated that Libyan construction companies must comply with the international accounting standards in the near future until the creation of domestic Libyan Accounting Standards.

Table 4- 19 Respondent's Answers to Question 20

QUESTION 20	***Do you prefer the International Accounting Standards to be used to determine the level of disclosure or should a special disclosure index be established for Libyan companies***		
No.	**Answer(s)**	**Numbers**	**%**
1.	Use the International Accounting Standards (only)	4	17%
2.	Use the International Accounting Standards until the creation of Libyan accounting standards	12	50%
3.	Establish a special disclosure index for Libyan companies	6	25%
4.	No response	2	8%
	Total	**24**	**100%**

4. 2 THE ACCOUNTING DISCLOSURE IN LIBYA

This part is concerned with the analysis of the extent of disclosure in the annual reports of Construction Companies in Libya. The annual reports of the sample companies were analysed to determine the extent to which they contained the items of information included in the Disclosure Index.

The part begins by explaining how the disclosure index was prepared.

4.2. 1 The Disclosure Index

As mentioned earlier in Chapter 3, the first step was to prepare a questionnaire to determine Libyan perceptions of the most important items which should be included in the annual reports issued by Libyan companies. The reason for this step was the absence of the Stock Market and any Libyan accounting standards, both of which would normally determine the disclosure requirements. After analysis of the data collected by the questionnaire, the results were used to develop a disclosure index in Libya which included the most important items which should be disclosed. This was then used to determine the level of disclosure of a sample of construction companies from Libya and Egypt by using the document analysis method.

The questionnaire was divided into two parts. The first part included five standard demographic questions about the respondent. The second part lists 96 items of information derived from a substantial literature review that forms the basis of the potential disclosure index. These items are expected to be included in the annual financial reports and statements. In addition four free items are available so that respondents can add any extra items they think are important.

The questionnaire sample included Libyan professionals from four groups: Chartered Accountants; Academic staff; Senior Construction Management; and Governmental Auditors; Figure 4-1 represents the percentage of respondents by various groups.

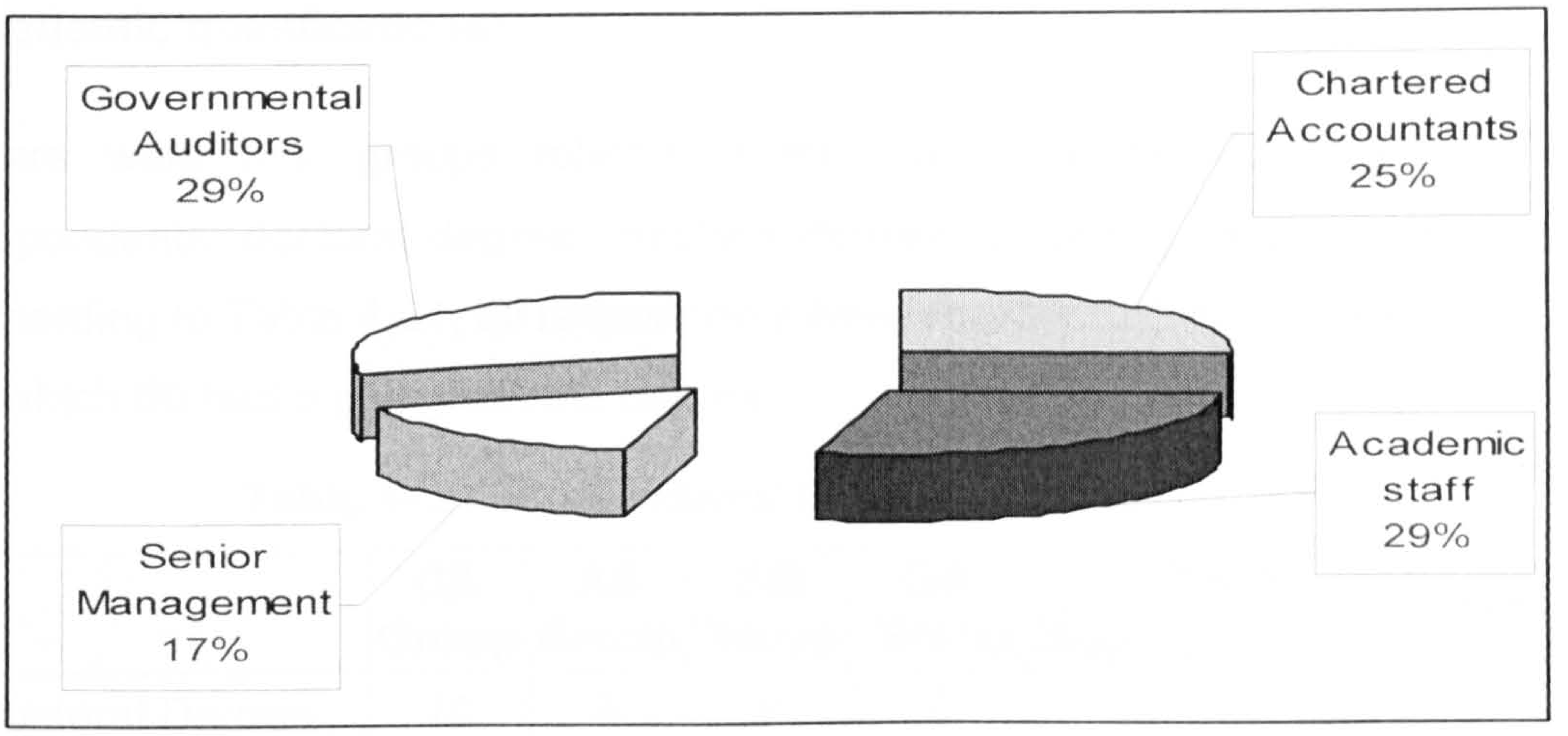


Figure 4-1: The Respondents by Groups

4.2. 2 Profile of Survey Respondents

In the first part of the questionnaire, the respondents are profiled under four classification sections according to: work experience duration; academic qualifications; qualification place; and age (see Appendix No. 6).

Work experience duration:

Work experience duration includes four groups: less than 5 years; 5 - 10 years; 11 - 20 years; and over 20. It can be seen from Table 4-20 that 75% (111) of all respondents have more than five years of experience.

Table 4- 20 Respondents' Profile: Work Experience Duration

	CA Group	AS Group	SM Group	GA Group	Total		Rank
					Numbers	%	
Less than 5 years	10	7	5	14	36	25	2
5 - 10 years	7	9	3	11	30	20	4
11 - 20 years	6	7	6	12	31	21	3
More than 20 years	14	19	11	6	50	34	1
Total	**37**	**42**	**25**	**43**	**147**	100%	

CA= Chartered Accountants; AS = Academic Staff; SM=Senior Management; GA= Governmental Auditors

Academic qualifications:

There were four groups related to the highest academic qualification of respondents: doctoral degree; master's degree; university degree; and others. According to Table 4-21, all respondents have received a bachelor's degree, out of which 60 had a postgraduate degree.

Table 4- 21 Respondents' Profile: Qualification Level

	CA Group	AS Group	SM Group	GA Group	Total		Rank
					Numbers	%	
Doctoral Degree	10	5	2	0	17	11%	3
Master's Degree	25	9	6	3	43	29%	2
University Degree	2	28	17	40	87	59%	1
Others	0	0	0	0	0	0%	4
Total	**37**	**42**	**25**	**43**	**147**	100%	

CA= Character Accountants; AS = Academic Staff; SM=Senior Management; GA= Governmental Auditors

Qualification place:

There were five qualification location groups; from Libya; from Egypt; from the UK; from the USA; and from others countries. According to Table 4-22, more than 70 % of the respondents (109) were qualified in Libya.

Table 4- 22 Respondents' Profile: Qualification Place

Location group	CA Group	AS Group	SM Group	GA Group	Total		Rank
					Numbers	%	
From Libya	20	29	18	42	109	74%	1
From Egypt	1	3	1	0	5	3%	4
From the UK	4	3	2	0	9	6%	3
From USA	12	7	4	1	24	17%	2
Others	0	0	0	0	0	0%	5
Total	**37**	**42**	**25**	**43**	**147**	100%	

CA= Character Accountants; AS = Academic Staff; SM=Senior Management; GA= Governmental Auditors

Age groups:

The respondents are profiled according to age groups which includes five groups: less than 25, 25-35; 36-50; 51-65; and over 65. Table 4-23 shows that overall most of the respondents were in the age range 25 to 65 years (95% of the total respondents). No respondents in the overall sample were aged over 65 years.

Table 4- 23 Respondents' Profile: Age group

Age group	CA Group	AS Group	SM Group	GA Group	Total		Rank
					Numbers	%	
Under 25	2	0	0	2	4	3%	4
25-35	11	12	3	25	51	35%	2
36-50	12	15	15	13	55	37%	1
51-65	12	15	7	3	37	25%	3
Over 65	0	0	0	0	0	0%	5
Total	**37**	**42**	**25**	**43**	**147**	100%	

CA= Character Accountants; AS = Academic Staff; SM=Senior Management; GA= Governmental Auditors

4.2. 3 Development of the Disclosure Index

As mentioned earlier, the second part of the questionnaire presents the initial index draft which is divided into five parts and includes 96 items (Appendix No. 3). Table 4-24 shows the distribution of the 96 items of information across the annual report: general items 19%, accounting policies 13%, balance sheet items 44%, income statement 19%, and cash flow statement 6%.

Table 4- 24 Distribution of Disclosure Index Items

Parts	Number of Items	%
General Disclosure	18	19
Accounting Policies	12	13
Income Statement	18	19
Balance Sheet	42	44
Cash Flow Statement	6	6
Total	**96**	**100**

In order for an item to be included in the final index it should have a mean of three or more points out of four. Based on the questionnaire results shown in Table 4-25, Table 4-26 and Table 4-27, 74 items were accepted for inclusion in the final index. Table 4-25 shows summaries of index disclosure items accepted from each part and percentage of items accepted.

Table 4- 25 Disclosure Items: Items Accepted

Parts	Part Number	Total Number of Items	Number of Items Accepted	Percentage of Items Accepted
General Disclosure	1	18	11	61%
Accounting Policies	2	12	8	67%
Income Statement	3	18	11	61%
Balance Sheet	4	42	38	90%
Cash Flow Statement	5	6	6	100%
Overall Disclosure		**96**	**74**	**77%**

Table 4-26 shows the mean scores by different parts; whereas and Table 4-27 shows a review of the all initial disclosure items index.

Table 4- 26 Disclosure Items: Mean Scores

Mean Scores	Part 1	Part 2	Part 3	Part 4	Part 5	Total	
Less than 3	**7**	**4**	**7**	**4**	**0**	**22**	**Excluded**
3.00 - 3.19	3	5	3	8	1	**20**	**Included**
3.20 – 3.39	2	2	3	18	2	**27**	
3.40 – 3.59	2	0	3	11	3	**19**	
3.60 – 3.99	4	1	2	1	0	**8**	
Total	**18**	**12**	**18**	**42**	**6**	**96**	

Part 1: general disclosure items; part 2: accounting policies items; part 3: income statement items; part 4: balance sheet items; and part 5: cash flow statement items.

Table 4- 27 Review of Disclosure Items Index

Part 1: General items			
No.	**Items**	**Mean Scores**	**Accepted**
1	A chairman's statement	2.97	**NO**
2	A Balance sheet	**3.89**	√
3	A profit and loss account or Income statement	**3.86**	√
4	A cash flow statement	**3.52**	√
5	A statement showing all changes in equity	**3.10**	√
6	Notes to the financial statements	**3.46**	√
7	An Audit report	**3.68**	√
8	A management discussion and analysis	2.94	**NO**
9	Accounting Policies	**3.03**	√
10	Company's name, address, Legal Status & Purpose of Activity	**3.05**	√
11	Balance sheet date and the period covered by Financial Statements	**3.61**	√
12	The level of precision (thousands or millions)	**3.29**	√
13	The currency used for the preparation of Financial Statements	**3.28**	√
14	Comparative Figures	2.98	**NO**
15	Number of employees & breakdown into Libyan & non-Libyan	1.93	**NO**
16	Completed & uncompleted projects	2.66	**NO**
17	Company plans for the following years & future capital expenditures	2.90	**NO**
18	Description of organizational structure	2.49	**NO**

Part 2: Items related to accounting policies			
No.	**Items**	**Mean Scores**	**Accepted**
19	Compliance with International Accounting Standards	**3.20**	√
20	Accounting Valuation (Historical, Current or Replacement cost)	**3.12**	√
21	Foreign currency transactions, translation and differences treatment	**3.08**	√
22	Events after the Balance Sheet Date	**3.04**	√
23	Revenue Recognition	**3.16**	√
24	Valuation of Property, plant & Equipment and Depreciation	**3.63**	√
5	Inventory physical count & valuation	**3.34**	√
26	Research and development costs	2.83	**NO**
27	Treatment of Other Intangible Assets	2.78	**NO**
28	Tax Treatment	2.96	**NO**
29	Long-term contracts	2.99	**NO**
30	Changes in accounting policy & the reasons	**3.15**	√

Part 3: Items related to income statement			
No.	**Items**	**Mean Scores**	**Accepted**
31	Revenue of the ordinary activity	**3.78**	√
32	Non – operating revenues and gains	**3.54**	√
33	Analysis of costs	**3.18**	√
34	Operating profit or loss	**3.57**	√
35	Finance costs	**3.24**	√
36	Profit or loss from ordinary activities before tax	**3.59**	√
37	Income Tax expense	**3.31**	√
38	Extraordinary items (if any)	2.98	**NO**
39	Net profit or loss for the period	**3.68**	√
40	The amount of dividends per share	**3.23**	√
41	Fundamental Errors and how it is treated	**3.03**	√
42	Effect of significant changes in accounting policies & estimate	**3.00**	√
43	Capital transactions with owners: issues and purchase of own shares	2.79	**NO**
44	Distributions to owners (e.g. dividends)	2.99	**NO**
45	The number of shares authorized and breakdown into paid & not paid	2.86	**NO**
46	Reconciliation of number of shares outstanding at beginning & end of the year	2.71	**NO**
47	The amount of dividends that were proposed or declared after the balance sheet date but before the financial statements	2.95	**NO**
48	Percentage of equity owned by management	2.93	**NO**

Part 4: Balance sheet and related notes			
No.	**Items**	**Mean Scores**	**Accepted**
49	Assets order	**3.33**	√
50	Assets classification	**3.40**	√
51	Gross value of fixed assets	**3.42**	√
52	Breakdown of total fixed assets	**3.32**	√
53	Net value of fixed assets	**3.41**	√
54	Accumulated depreciation for each item of fixed assets	**3.24**	√
55	Proportion of fixed assets leased	2.91	**NO**
56	Schedule of movement in fixed assets	2.68	**NO**
57	Amount of Intangible assets	2.97	**NO**
58	Financial assets & investments	**3.37**	√
59	Investments in Projects under construction	**3.11**	√
60	Market Values of Investments if different from Book Values	**3.06**	√
61	Total value of current assets	**3.37**	√
62	Total value of Inventories	**3.51**	√
63	Market value of Inventories	**3.23**	√

Part 4: Balance sheet and related notes (con.)			
No.	**Items**	**Mean Scores**	**Accepted**
64	Breakdown of Inventories	**3.12**	√
65	Investment in marketable securities	**3.29**	√
66	Market Values of marketable securities	**3.05**	√
67	Balances of Receivables	**3.32**	√
68	Breakdown of receivables into Trade and others	**3.18**	√
69	Cash	**3.49**	√
70	Bank balance	**3.62**	√
71	Bank balance breakdown (current & deposit)	**3.40**	√
72	Liabilities order	**3.29**	√
73	Liabilities classification	**3.35**	√
74	Total value of loans and long term Liabilities	**3.31**	√
75	Secured & unsecured debts by mortgage	**3.29**	√
76	Total value of current Liabilities	**3.22**	√
77	Classified current Liabilities	**3.16**	√
78	Liabilities to Banks	**3.39**	√
79	Liabilities to owners	**3.18**	√
80	Liabilities to members of the board	**2.99**	**NO**
81	Liabilities to Suppliers & Notes Payable	**3.35**	√
82	Tax liabilities	**3.44**	√
83	Installments of long term loans payable during the year	**3.31**	√
84	Dividends Payable	**3.12**	√
85	Accrued Expenses	**3.31**	√
86	Provisions	**3.33**	√
87	Stockholders Equity	**3.50**	√
88	Issued capital	**3.53**	√
89	Legal reserve & Other reserves	**3.46**	√
90	Retained Earnings	**3.48**	√

Part 5: Items related to cash flow statement			
No.	**Items**	**Mean Scores**	**Accepted**
91	The main items of cash inflows	**3.48**	√
92	The main items of cash outflows	**3.52**	√
93	The main items of Cash flows from/for investment activities	**3.27**	√
94	Net cash inflow from operating activities	**3.42**	√
95	Adjusted by non–cash transactions (depreciation)	**3.04**	√
96	The breakdown of cash flows from and to finance activities	**3.31**	√

According to questionnaire results, the rejected items from the initial list included 22 items from all parts except part 5 in which no items were rejected. The main items rejected from each part are as follows:

Part 1: General Disclosure: includes seven items: a chairman's statement; a management discussion and analysis; comparative figures; number of employees & breakdown into Libyan & non-Libyan completed & uncompleted projects; company plans for the following years & future capital expenditures; and description of organizational structure.

Part 2: Accounting Policies: four items include: research and development costs; treatment of other intangible assets; tax treatment; and long-term contracts.

Part 3: Income Statement: Seven items include: extraordinary items; capital transactions with owners; issues and purchase of own shares; distributions to owners; the number of shares authorized and breakdown into paid & not paid; reconciliation of number of shares outstanding at the beginning & end of the year; the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements; and percentage of equity owned by management.

Part 4: Balance sheet: four items include: proportion of fixed assets leased; schedule of movement in fixed assets; amount of Intangible assets; and liabilities to members of the board.

The results of the questionnaire show the rejection of 22 items, which include a number of important items that are subject to legislation around the world, for example the chairman's statement. Although, the researcher personally disagrees with these results, these items were not included in final disclosure index.

Appendix No. 7 shows the summary of the means of all response scores of different users by groups. Table 4-28 shows a summary of disclosure items included in the initial index and the weight given to each item by various groups and Table 4-29 gives a summary of this appendix.

Table 4- 28 Disclosure Mean Score Levels

Groups / Mean Scores	Chartered Accountants	Academic Staff	Senior Management	Governmental Auditors
Less than 3	**6**	**12**	**7**	**16**
3.00 - 3.19	7	7	3	5
3.20 – 3.39	8	11	5	8
3.40 – 3.59	10	5	5	7
3.60 – 3.99	6	7	5	7
Total (%)	**37(25%)**	**42(29%)**	**25(17%)**	**43(29%)**
Average	**3.28**	**3.17**	**3.24**	**3.18**

Table 4- 29 Sectional Mean Score Levels

Parts / Groups	Part 1	Part 2	Part 3	Part 4	Part 5	Overall
Chartered Accountants (**CA**)	3.25	3.13	3.26	3.30	3.50	**3.28**
Academic Staff (**AS**)	3.10	3.06	3.12	3.23	3.28	**3.17**
Senior Management (**SM**)	3.13	3.02	3.30	3.32	3.27	**3.24**
Governmental Auditors (**GA**)	3.10	3.17	3.12	3.27	3.31	**3.18**
Overall	**3.15**	**3.11**	**3.19**	**3.28**	**3.34**	**3.22**

Part 1: general disclosure items; part 2: accounting policies items; part 3: income statement items; part 4: balance sheet items; and part 5: cash flow statement items.

4.2. 4 Survey of Items Disclosed

As mentioned earlier in chapter 3, the checklist was designed to survey the items disclosed by Libyan companies (see Appendix No. 8) in their annual reports. Although many items are disclosed by all companies, there are also several items not disclosed by any company.

The general disclosure items (Part 1) disclosed

The general disclosure items of part 1 includes 11 items. The disclosure rate is between 0 - 100 percent. Table 4-30 shows the disclosure rates of all items.

Table 4- 30 General Disclosure Items (Part 1)

Item No.	Items	Y	ND	NA	Disclosure Rate
1	A Balance sheet	45	0	0	100%
2	A profit and loss account or Income statement	45	0	0	100%
3	A cash flow statement	0	45	0	0%
4	A statement showing all changes in equity	0	45	0	0%
5	Notes to the financial statements	9	36	0	20%
6	An Audit report	38	7	0	84%
7	Accounting Policies	1	44	0	2%
8	Company's name, address and Legal Status	31	14	0	69%
9	Financial statements date and the period covered	29	16	0	64%
10	The level of precision (thousands or millions)	6	39	0	13%
11	The currency used in the Financial Statements	15	30	0	33%

(Y) = item disclosed; **(NA)** = not applicable; **(ND)** = not disclosed.

The disclosure of items related to accounting policies (Part 2)

The items related to accounting policies include 8 items; all of them have a disclosure rate under 50%. Table 4-31 shows the disclosure rate of all items included in part 2.

Table 4- 31 Accounting Policies Items (Part 2)

Item No.	Items	Y	ND	NA	Disclosure Rate
12	The comply with International Accounting Standards	16	29	0	36%
13	Accounting Valuation method	1	44	0	2%
14	Foreign currency transactions, translation	0	5	40	0%
15	Events after the Balance Sheet Date	0	8	37	0%
16	Revenue Recognition	0	45	0	0%
17	Valuation of Fixed Assets	22	23	0	49%
18	Inventory physical count & valuation	2	9	34	18%
19	Changes in accounting policy & the reasons	1	12	32	8%

(Y) = item disclosed; **(NA)** = not applicable; **(ND)** = not disclosed.

The disclosure of items related to income statement (Part 3)

Table 4-32 shows the disclosure rate of 10 items included in this part, which are between 0 and 96%.

Table 4- 32 Income Statement Items (Part 3)

Item No.	Items	Y	ND	NA	Disclosure Rate
20	Revenue of the ordinary activity	43	2	0	96%
21	Non – operating revenues and gains	9	4	32	69%
22	Analysis of costs	42	3	0	93%
23	Operating profit or loss	20	25	0	44%
24	Finance costs	7	16	22	30%
25	Profit or loss from ordinary activities before tax	20	25	0	44%
26	Income tax expense	20	25	0	44%
27	Net profit or loss for the period	41	4	0	91%
28	The amount of dividends per share	1	44	0	2%
29	Fundamental errors and how it is treated	1	10	34	9%
30	Effect of significant changes in accounting policies	0	8	37	0%

(Y) = item disclosed; **(NA)** = not applicable; **(ND)** = not disclosed.

The disclosure of items related to the balance sheet (Part 4)

The items related to the balance sheet includes 38 items, the average disclosure rate of all companies is 58.85 % whereas the disclosure rate is between 0 - 100 percent. Table 4-33 shows the disclosure rate of all items included in this part.

Table 4- 33 Balance Sheet Items (Part 4)

Item No.	Items	Y	ND	NA	Disclosure Rate
31	Assets order	44	1	0	98%
32	Assets classification	43	2	0	96%
33	Gross value of fixed assets	45	0	0	100%
34	Breakdown of total fixed assets	43	2	0	96%
35	Net value of fixed assets	44	1	0	98%
36	Accumulated depreciation for each item of fixed assets	35	10	0	78%
37	Financial assets & investments	2	5	38	29%
38	Investments in Projects under construction	19	11	15	63%
39	Market values of Investments	0	4	41	0%
40	Total value of current assets	34	11	0	76%
41	Total value of Inventories	11	0	34	100%
42	Market value of Inventories	0	11	34	0%
43	Breakdown of Inventories	3	8	34	27%
44	Investment in marketable securities	3	4	38	43%
45	Market Values of marketable securities	0	6	39	0%
46	Balances of receivables	39	3	3	93%
47	Breakdown of receivables into Trade and others	29	13	3	69%
48	Cash	26	0	19	100%
49	Bank balance	39	0	6	100%
50	Bank balance breakdown (current & deposit)	2	37	6	5%
51	Liabilities order	31	14	0	69%
52	Liabilities classification	13	32	0	29%
53	Total value of loans &long term Liabilities	27	14	4	66%
54	Secured & unsecured debts by mortgage	7	24	14	23%
55	Total value of current Liabilities	4	41	0	9%
56	Classified current Liabilities	26	19	0	58%
57	Liabilities to Banks	18	4	23	82%
58	Liabilities to owners	9	10	26	47%
59	Liabilities to suppliers & notes payable	31	5	9	86%
60	Tax liabilities	22	16	7	58%
61	Instalments of long term loans payable	0	11	34	0%
62	Dividends payable	3	13	29	19%
63	Accrued expenses	38	7	0	84%
64	Provisions	23	22	0	51%
65	Stockholders Equity	27	18	0	60%
66	Issued capital	44	1	0	98%
67	Legal reserve & other reserves	15	30	0	33%
68	Retained earnings	43	2	0	96%

(Y) = item disclosed; **(NA)** = not applicable; **(ND)** = not disclosed.

The disclosure items related to cash flow statement (Part 5)

The items related to the cash flow statement include 6 items. Table 4-34 shows that no companies have disclosed any items of this part.

Table 4- 34 Cash Flow Statement Items (Part 5)

Item No.	Items	Y	ND	NA	Disclosure Rate
69	The main items of cash inflows	0	45	0	0%
70	The main items of cash outflows	0	45	0	0%
71	Cash flows from/for investment activities	0	45	0	0%
72	Net cash inflow from operating activities	0	45	0	0%
73	Adjustment by non–cash transactions (E.g.: depreciation)	0	45	0	0%
74	Cash flows from and to finance activities	0	45	0	0%

(Y) = item disclosed; **(NA)** = not applicable; **(ND)** = not disclosed.

Summary

From Table 4-35 it can be seen that the average disclosure rate of all sample companies is 45%. It can also be observed that the average percentage of disclosure of the Balance Sheet items is 59%, which is higher than that of the other four parts.

Table 4- 35 Summary of Disclosed Items by Libyan Companies

Parts	Number	Average	Max	Min
Balance Sheet (4)	11	59%	100%	0%
Income Statement (3)	38	48%	96%	0%
General Disclosure (1)	11	44%	100%	0%
Accounting Policies (2)	8	14%	49%	0%
Cash Flow Statement (5)	6	0%	0%	0%
Overall	**74**	45%	100%	0%

Figure 4-2 illustrates the disclosure rate of the sample of Libyan construction companies, which are classified into 10 levels. More than 75% of the Libyan sample has a disclosure rate of between 40% and 60% and there is no company that has a rate of more than 80% disclosure.

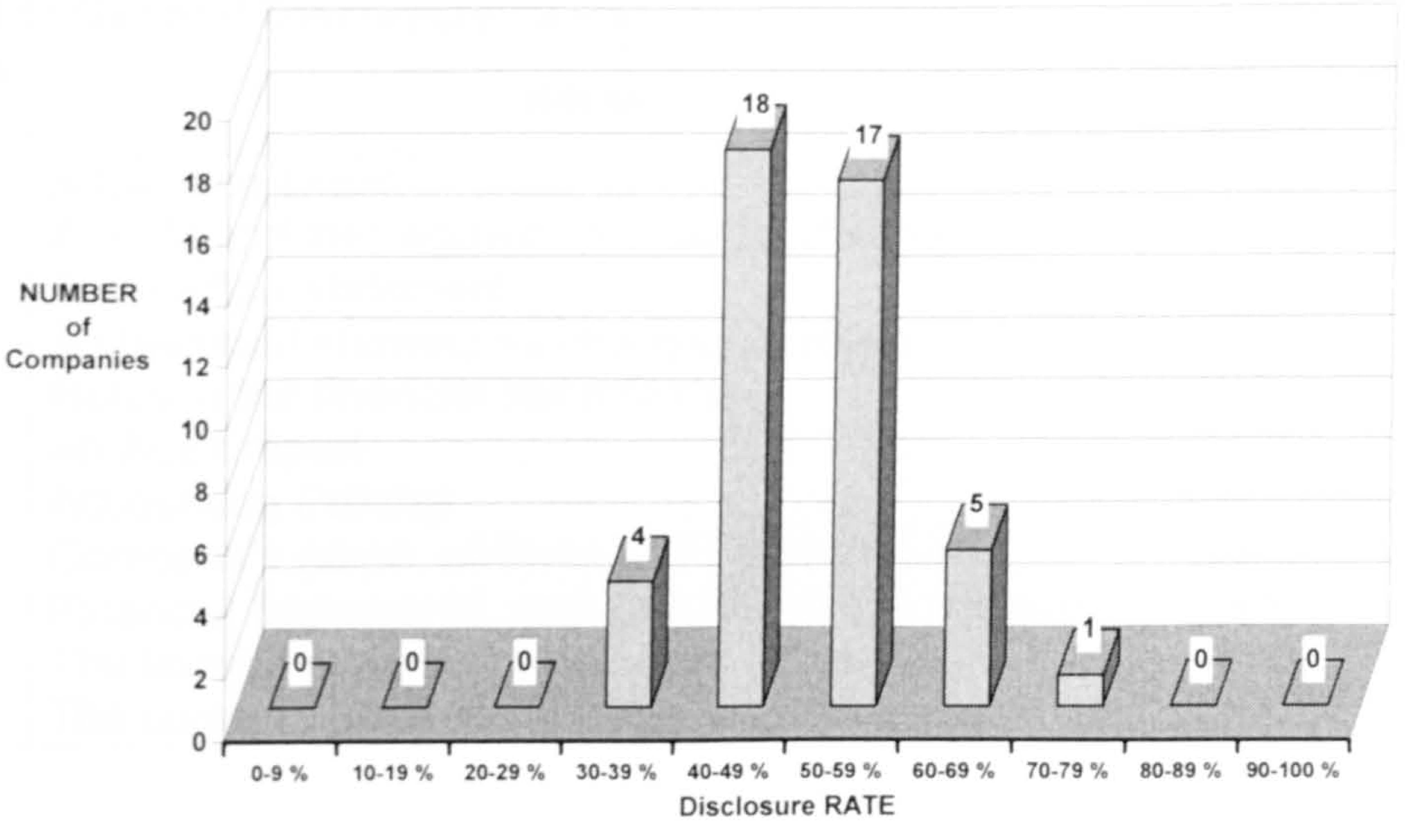


Figure 4-2: Disclosure Rate Levels of Sample

4.2. 5 Comparison with the Level of Egyptian Companies

As mentioned earlier in the methodology chapter, the checklist was designed to survey the items disclosed by Libyan and Egyptian companies in their annual reports.

The sample from Egyptian companies covers the top ten construction companies listed in the Cairo & Alexandria stock exchanges. The annual reports of these companies were collected for the financial year 2002/2003.

As a matched sample from Libyan construction companies the top ten companies with the highest disclosure rate based on the results of the previous part 4.2.4 have been selected.

Table 4-36 shows the disclosure rate of all items provided by the "top ten" Companies in both countries classified by parts. It shows that the average percentage of disclosure of the Balance Sheet items is 72%, which is higher than that of the other four parts in Libya. Whereas the highest part in Egypt is the part that includes items related to the Cash flow statement.

Table 4- 36 Disclosure Rates by Companies

Part 1: General Disclosure Items			
Item No.	Items	Disclosure Rate	
		Egypt	Libya
1	A Balance sheet	100%	100%
2	A profit and loss account or Income statement	100%	100%
3	A cash flow statement	100%	0%
4	A statement showing all changes in equity	90%	0%
5	Notes to the financial statements	100%	50%
6	An Audit report	100%	90%
7	Accounting Policies	100%	10%
8	Company's name, address and Legal Status	100%	100%
9	Financial Statements date and the period covered	100%	90%
10	The level of precision (thousands or millions)	10%	30%
11	The currency used in the Financial Statements	100%	70%

Part 2: Accounting Policies Items			
Item No.	Items	Disclosure Rate	
		Egypt	Libya
12	The comply with International Accounting Standards	50%	30%
13	Accounting Valuation method	70%	0%
14	Foreign currency transactions, translation	67%	0%
15	Events after the Balance Sheet Date	30%	0%
16	Revenue Recognition	60%	0%
17	Valuation of Fixed Assets	80%	50%
18	Inventory physical count & valuation	100%	33%
19	Changes in accounting policy & the reasons	0%	0%

Part 3: Income Statement Items			
Item No.	Items	Disclosure Rate	
		Egypt	Libya
20	Revenue of the ordinary activity	100%	100%
21	Non – operating revenues and gains	100%	100%
22	Analysis of costs	60%	100%
23	Operating profit or loss	100%	50%
24	Finance costs	88%	50%
25	Profit or loss from ordinary activities before tax	80%	70%
26	Income Tax expense	29%	60%
27	Net profit or loss for the period	78%	100%
28	The amount of dividends per share	80%	10%
29	Fundamental Errors and how it is treated	0%	50%
30	Effect of significant changes in accounting policies	11%	0%

Part 4: Balance Sheet Items			
Item No.	Items	Disclosure Rate	
		Egypt	Libya
31	Assets order	100%	100%
32	Assets classification	100%	100%
33	Gross value of fixed assets	100%	100%
34	Breakdown of total fixed assets	100%	100%
35	Net value of fixed assets	100%	100%
36	Accumulated depreciation for each item of fixed assets	100%	100%
37	Financial assets & investments	100%	0%
38	Investments in Projects under construction	100%	89%
39	Market Values of Investments	14%	0%
40	Total value of current assets	100%	100%
41	Total value of Inventories	100%	100%
42	Market value of Inventories	0%	0%
43	Breakdown of Inventories	86%	33%
44	Investment in marketable securities	100%	100%
45	Market Values of marketable securities	33%	0%
46	Balances of Receivables	100%	100%
47	Breakdown of receivables into Trade and others	60%	80%
48	Cash	90%	100%
49	Bank balance	90%	100%
50	Bank balance breakdown (current & deposit)	63%	11%
51	Liabilities order	100%	100%
52	Liabilities classification	100%	70%
53	Total value of loans &long term Liabilities	100%	88%
54	Secured & unsecured debts by mortgage	0%	67%
55	Total value of current Liabilities	100%	30%
56	Classified current Liabilities	100%	90%
57	Liabilities to Banks	100%	100%
58	Liabilities to owners	13%	67%
59	Liabilities to Suppliers & Notes Payable	100%	100%
60	Tax liabilities	70%	70%
61	Instalments of long term loans payable	100%	0%
62	Dividends Payable	10%	43%
63	Accrued Expenses	50%	90%
64	Provisions	100%	70%
65	Stockholders Equity	100%	80%
66	Issued capital	100%	100%
67	Legal reserve & Other reserves	100%	60%
68	Retained Earnings	100%	90%

Part 5: Cash Flow Statement Items			
Item No.	Items	Disclosure Rate	
		Egypt	Libya
69	The main items of cash inflows	90%	0%
70	The main items of cash outflows	80%	0%
71	Cash flows from/for investment activities	100%	0%
72	Net cash inflow from operating activities	100%	0%
73	Adjusted by non–cash transactions (depreciation)	90%	0%
74	Cash flows from and to finance activities	90%	0%

Table 4-37 shows a summary the disclosure rate of all items provided by the sample companies in both countries classified by parts. After surveying the sample companies, the average disclosure rate of all companies is 56% in Libya and 79% in Egypt.

Table 4- 37 Summary of Disclosure Items

No.	Parts	Comparative Disclosure Rate	
		Egypt	Libya
1	General Disclosure	91%	**58%**
2	Accounting Policies	57%	**14%**
3	Income Statement	66%	**63%**
4	Balance Sheet	81%	**72%**
5	Cash Flow Statement	92%	**0%**
Overall		79%	**56%**

Table 4-38 shows the disclosure rate of the sample construction companies in both countries, which are classified into six levels. All Libyan companies in the sample have a disclosure rate of less than 80% whereas the entire Egyptian sample has a rate of more than 70%.

Table 4- 38 Disclosure Rate Levels

Disclosure Rate	Egypt		Libya	
	Number of Companies	Percentage (To total)	Number of Companies	Percentage (To total)
0-49 %	**0**	0 %	**0**	0%
50-59 %	**0**	0 %	**5**	50%
60-69 %	**0**	0 %	**4**	40%
70-79 %	**5**	50 %	**1**	10%
80-89 %	**5**	50 %	**0**	0%
90-100 %	**0**	0 %	**0**	0 %
TOTAL	**10**	**100%**	**10**	**100%**

4. 3 SUMMARY

The chapter encompasses the analysis and interpretation of data gathered from this study, as outlined in the methodology chapter. It is divided into the two areas investigated: Capital Markets and Accounting Disclosure in Libya.

Specifically, the chapter contains two main sections: an analysis of the interviews conducted with Libyan experts to investigate the impact of an emerging capital market on the Libyan economy; and survey items disclosed by Libyan companies and calculations of the disclosure rates of these companies in comparison to the level of disclosure of Egyptian companies.

The capital market is very important in any country because it plays an important role in economic development. In Libya, the financial system faces several developmental challenges relating to limited access to finance by the corporate sector in the absence of a capital market, also it causes a lot of negative effects. It is very important for Libya to establish a capital market but the main problem toward it is the environment is not yet suitable.

Relevant conditions for establishing an efficient stock market in Libya or in other countries include: establishing a legal framework; developing a regulatory environment; introducing appropriate accounting standards; auditing; disclosure practices for financial sector reporting; removing any tax or other regulatory impediments, which may hamper trading in securities.

A capital market has emerged in Libya that requires a high level of accounting disclosure to achieve an efficient market. This chapter focuses on determining the items that should be disclosed by Libyan construction companies as well as the items that have been enclosed by these companies. A comparison of the level of accounting disclosure of Libyan Construction Companies with similar Companies in Egypt has been carried out to ascertain this.

The chapter shows that the level of accounting disclosure of Libyan construction companies is at a low level. As a result, this level will be an obstacle towards establishing a capital market in Libya. The Libyan companies must increase this level in many ways, such as complying with the international accounting standards.

CHAPTER 5

ANALYSIS AND CONCLUSION

CHAPTER 5: ANALYSIS AND CONCLUSION

Chapter 4 presented the data gathered from this study. In turn this chapter will summarise the overview and findings of the current study by representing the background of the current research, a summary of its objectives, and a discussion of the findings with respect to the developed theoretical framework.

Specifically, the chapter contains the following parts:

- Analysis of the main findings and recommendations;
- Conclusion about research questions;
- Main research contributions to knowledge;
- Research study limitations; and future research;
- Conclusion to the research aim.

5. 1 Analysis and Recommendations

The findings of this thesis indicate that in general, the capital market is very important in any country because it plays an important role in economic development. The important conditions for establishing an efficient Stock Market in any country includes:

- Establishing a legal framework;
- Developing a regulatory environment;
- Introducing appropriate accounting standards;
- Determining disclosure practices for financial sector reporting;
- Removing any tax or other regulatory impediments which may hamper trading in securities.

5.1. 1 Main Findings from Review the Relevant Literature

The second chapter of this thesis reviewed in detail the main literature relevant to the research problem of this study. The chapter included six parts; the first part provided information about Arab Capital Markets. The other four parts each provided a review of studies that relate to themes relevant to the main subject, as follows: The relationship between Emerging Capital Markets and Economic Growth; Information and Efficient Capital Markets Studies; International Accounting Standards; and Financial Reporting and Disclosure Practices. The last part provided details of the Accounting Profession and Disclosure Requirements in Libya.

Part1: Arab Capital Markets:

This part provided information and indicators of Arab Capital Markets, it can be observed from this part that:

- In fifteen of the twenty-two Arab countries, there are stock exchanges. Each of these countries has one market except for two countries; the Union of Arab Emirates and Egypt which both have two markets. The Saudi Arabian market is the largest and has more than 50% of the entire capitalisation of all Arab markets. Whereas the largest number of listed companies is on the Egyptian markets;

- Five Arab countries did not have official capital markets until the end of 2005. These are Comoros, Djibouti, Mauritania, Somalia and Yemen. Libya and Syria issued new laws in 2006, which will allow the establishment of capital markets in the near future;

- All Arab markets are emerging markets and most markets started operating during the last two decades (1980s and 1990s). The Arab stock markets are still less active and smaller than the average of other developing countries;

- All markets are part of the Arab Data Base of the Arab Monetary Fund except the Iraq market. Only six Arab countries have firms listed in the IFC index, including; Jordan, Egypt, Bahrain, Oman, Saudi Arabia, and Tunisia;

- The Arabic Capital Markets have many similarities. They are similar in terms of: the type of investors; and their size and structure. On the other hand, there are some differences between the Arab Markets. One of the important differences is the relative ability to attract foreign investments in securities and other financial papers;

- The Arab Markets can be divided into two groups; the first group comprises markets that do not impose any restrictions on foreign investments; these include; Egypt; Morocco; Jordan; Algeria, and Lebanon. Whereas the second group includes countries where such restrictions exist in varying degrees; these are: Tunisia; Saudi Arabia; Bahrain; Qatar; Kuwait; and The United Arab Emirates.

Part 2: Emerging Capital Markets and Economic Growth:

The second part reviewed the major issues in the relationship between the emerging market development and economic growth in the economic literature. There is no universally accepted definition of emerging markets because these markets vary widely in their structure, performance, prospects and principal features.

The International Finance Corporation (IFC) suggests some attributes to qualify a market as emerging. Firstly, the market must be located in a developing country. Secondly, the market has a high degree of contribution of the stock exchange market to the total national financial system that can be measured by the market capitalization ratio. Thirdly, it has a high degree of dynamism of the market that can be measured by its liquidity.

Some authors (such as Derrabi and Leseure, 2005) stated that an analysis of the evolution of some emerging markets revealed four distinct stages: Embryonic phase, Low activity phase, Active phase and Maturity phase. In this context, Khambata (2000) categorizes the emerging markets into four groups.

Although emerging markets offer several attractions to foreign investors, trading is not without difficulties. One problem is that these markets are considered highly volatile.

Most studies (such as Goldsmith, 1969; Holmström and Tirole, 1993; Smith, 1997; Obstfeld, 2000; Beck and Levine, 2001; and Kirkpatrick, 2005) tend to suggest that stock market development, along with financial intermediaries, have an impact on economic growth, principally through their own operations and their role in allocating financial capital between different economic activities. It is apparent that there is still much work to be done in this area.

Part 3: Information and Efficient Capital Markets:

Information plays an essential role in the efficiency of financial markets. It is the engine and the bedrock upon which the participants in these markets can re-assess the prices of securities on a continuous basis. Moreover, financial markets cannot operate efficiently unless the requested information is available and appropriate.

Efficient financial markets have a substantial effect on the national economy. Higher consumption is made possible by greater capital intensity and greater output. Unlike the stereotypical view of financial markets as a wasteful activity without a real recourse effect, financial markets are an integral part of a developed economy. An efficient financial market contributes towards generally higher national standards of living.

The Efficient Market Hypothesis (EMH) evolved by Eugene Fama in 1970 defines an efficient market as 'A market in which prices always "fully reflect" available information. He also classified the pricing efficiency of a market into three forms: weak efficiency; semi-strong efficiency; and strong efficiency.

The EMH has been tested extensively over the last three decades and it is still continuing by using more advanced techniques. In the last few years, there has been a growing interest in emerging markets. Research on these markets has focused on the issue of efficiency, as well as on their integration into international markets.

The most important studies focused on testing the hypothesis and determining whether there is an important relationship between price changes from time to time. Other studies focused on determining the quality of accounting and financial events that contain new information and set the pace of reflection on this information in the prices of investments that will be circulated in the financial markets.

Part 4: International Financial Reporting Standards:

The governance of accounting profession practice is known as "generally accepted accounting principles (GAAP)". This term includes accounting standards and all regulation *related to "how a company should prepare its* accounts" and in the UK, it includes UK company law.

Until recently every country had its own accounting standards, however, international pressures have led to the adoption of a single set of international accounting standards. The beginning of the international accounting standards was in 1973, when the International Accounting Standards Committee was founded under an agreement between the national accountancy bodies of ten countries.

Disclosure can be made in accordance with these prescriptions: legislation; accounting standards; or it can be voluntary. Companies in their annual reports disclose information in financial statements and the notes thereto in accordance with formats, which in many countries are specified by law. They also disclose the accounting policies underlining these statements. Further information is disclosed in the UK in the directors' report and the chairman's statement.

Stock Exchanges around the world accept financial statements prepared according to Generally Accepted Accounting Principles (GAAP) or to their own domestic GAAP. They also accept accounts prepared according to International Accounting Standards (IASs) of for example: London; Paris; Frankfurt; and Tokyo.

Part 5: Financial Reporting and Disclosure Practices:

A number of studies (such as: Cerf, 1961; Singhvi and Desai, 1971; Buzby, 1974; Stanga, 1976; Firth, 1978; Cooke, 1991; Malone et al,1993; Hossain et al, 1995; Inchausti, 1997; and Karim & Ahmed,2005) have been completed either in developed or developing countries, which focused primarily on the financial reporting and disclosure practices. The main points of this part can be summarised as follows:

- The most common principles used to describe disclosure levels, require companies to disclose based upon: the USA GAAP (Generally Accepted Accounting Principles); to give full, fair and adequate disclosure;

- There are a number of authors (such as: Akerlof, 1970; Choi, 1973; and, Wallace, 1987) who have attempted to present arguments to explain why firms disclose their information. Several writers have supported the idea that there is no need to make disclosure mandatory. The advocates of this approach based their arguments on the following principles: Agency Theory; Capital Market Theory; Signalling Theory; and Political Economy Theory;

- The corporate disclosure could be divided into mandatory requirements demanded to be fulfilled by formal accounting authorities such as: stock exchanges; securities commission; and company law and additional voluntary disclosure motivated by economic cost-benefit analysis;

- In 1977 the SEC Advisory Committee on corporate disclosure enumerated six reasons for continuing mandatory disclosure;

- Several studies (such as: Singhvi and Desai, 1971; Buzby, 1974; Stanga, 1976; Firth, 1979; Cooke, 1991; Cooke, 1992; Hossain et al, 1995; Inchausti, 1997) have been carried out on developed countries, include: the UK, Canada, Japan, and the USA. Table 5-1 are summaries of the most important studies;

- Studies in developing countries (such as: Abdulsalam, 1985; Bahjatt, 1986; Al-Amari, 1989; Al-Modahki, 1995; Wallace, 1987; Karim and Ahmed, 2005) include research undertaken in countries such as India, Bangladesh, Nigeria, Jordan, Mexico, Malaysia and Saudi Arabia.

Part 6: The Accounting Profession and Disclosure Requirements in Libya:

The modern accounting profession in Libya is relatively new. The Libyan Law 116: 1973, established the Libyan Certified and Public Accountants Union (LCPAU), to regulate the accounting profession in Libya was the first complete regulation enacted in order to organize the accounting profession in Libya.

Table 5-1 The Summary of Disclosure Studies

Author(s), year	Index	Sample	Analysis Method(s)	Findings
Cerf (1961)	31 items	Annual reports of 258 US. firms	Regression	**Significant**: Assets size, number of shareholders, and the rate of return. **Non-significant**: Listing status.
Singhvi & Desai (1971)	34 items	Annual reports of 155 US. firms	Regression	**Significant**: Assets size; number of stockholders; the rate of return; listing status; Certified Public Accountants (CPA) firms; and earnings margin
Buzby (1974)	38 items	Annual reports of 88 US. firms	Rank correlations	**Significant**: Assets size. **Non-significant:** Listing status.
Stanga (1976)	79 items	Annual reports of 80 US. firms	Disclosure scores	**Significant**: Industry type **Non-significant:** Corporate size
Firth (1979)	48 items	Annual reports of 140 UK firms	Disclosure scores	**Significant**: Assets size; and listing status.
Cooke (1991)	106 items	Annual reports of 48 Japanese firms	Linear regression	**Significant**: Assets size; and listing status.
Cooke (1992)	165 items	Annual reports of 35 Japanese firms	Linear regression	**Significant**: Assets size; industry and listing status.
Malone et al (1993)	129 items	Annual reports of 125 US. firms	Regression	**Significant**: Exchange listing status, debt-equity ratio and number of shareholders
Hossain et al, (1995)	95 items	Annual reports of 55 NZ firms	Cross-sectional regression	**Significant**: Firm size, foreign listing status and leverage **Non-significant:** Assets-in-place and type of auditor
Inchausti (1997)	50 items	Annual reports of 49 Spanish firms	Regression	**Significant**: Size, auditing firm and stock exchange listing **Non-significant:** Profitability, leverage, dividends and industry

Very little work has been done by LCPAU to date. There are a number of accountants and accounting firms who are licensed by the Libyan Certified and Public Accountants Union (LCPAU). However, no systematic body of accepted standards and practices of accounting presently exist in Libya.

Specifically, in Libya where there is the absence of a stock exchange as well as an absence of domestic Generally Accepted Accounting Principles (GAAP), the major impact on disclosure requirements has come from Libyan laws related to economic activities. Few relevant Libyan laws and regulations influence accounting in this respect. Those that do include the Accounting & Auditing Profession Law (Law 116: 1973), Libyan Commercial Code (Law 1: 1953), the Income Tax Law (Law 1: 2004), The Libyan Petroleum Law (Law 25: 1955).

5.1. 2 Main Findings Related to the Libyan Stock Market

The findings of this thesis showed that, the financial system in Libya faces several developmental challenges relating to limited access to finance by the corporate sector in the absence of a capital market. Also that the absence of a capital market causes a lot of negative effects. The findings indicate that it is very important for Libya to establish a capital market but the main problem is that the environment is not yet suitable. The main findings of this research related to establishing an efficient stock market in Libya, include the following:

- The capital market is very important to Libyan economic development, because the absence of a capital market causes many negative affects. For example, it has delayed many important reform programmes such as: privatization programmes; attracting investment of foreign capital; and establishing free zones;
- The indigenous option is that the Libyan environment is not yet ready to permit the establishment of a capital market because many critical factors are not readily available in Libya. The Libyan government must enact rules and

regulations, such as Capital Market laws, to eliminate these problems before proceeding with establishing the stock market in Libya;

- The most critical factors to establishing an active stock market includes: a stable and clear political environment; a stable economic environment; an adequate tax framework; adequate accounting and auditing standards; an adequate market infrastructure; and an adequate legal framework;

- The stock market will play an important role for Libyan companies. It might provide the companies with the opportunity to obtain finance from the investors and provide potential investors with new investment opportunities;

- The Libyan financial institutions and corporations; such as banks and insurance companies; do not have any experience regarding the operation of a capital market and are not yet mature enough to play any role in it;

- The Libyan stock market will play an important role in Libyan economic development by: increasing the GDP; helping in restructuring the Libyan economy; speeding up economic reform programmes; assisting other reform programmes to precede faster;

- The Libyan stock market is expected to: encourage investors to invest in securities; allow easy liquidation of securities; regulate the issuance and dealing of securities; improve the level of financial disclosure in Libyan companies; improve the level of competition between Libyan companies; provide the realistic valuation of Libyan companies.

5.1. 3 Main Findings Related to Accounting Disclosure in Libya

The findings of this thesis, related to the level of disclosure of Libyan construction companies, showed that the level of accounting disclosure of Libyan construction companies is at a low level. As a result, this level of disclosure will be an obstacle towards establishing an efficient stock market in Libya. Libyan companies must increase this level of disclosure in many ways, such as complying with the international accounting standards. The main results include the following:

- The information published by Libyan companies is insufficient for accurate evaluations and not available to all users on time. Most financial statements of Libyan companies are delayed in publication or if published are not audited. In addition, there are no available issue tools such as financial magazines or newspapers;

- The results of the questionnaire showed the rejection of 22 items of the initial disclosure index, which included a number of important items that are subject to legislation around the world, for example, the chairman's statement. Although, the researcher personally disagreed with these results, these items were not included in final disclosure index since they had been rejected by the national Libyan experts selected for this study;

- Most of the Libyan construction companies sampled (more than 75%) had a disclosure rate of between 40% and 60% (of the accepted Libyan disclosure index) and there is no company that had a rate of more than 80% disclosure;

- The average disclosure rate of the entire Libyan construction companies sampled of the Balance Sheet items was 59%, which is higher than that of the other four parts: Income Statement part items (48%); General Disclosure part items (44%); Accounting Policies part items (14%); and Cash Flow Statement part items (0%);

- The average disclosure rate of the top 10 companies is 56% in Libya and all Libyan construction companies sampled had a disclosure rate of less than 80%;

- The average disclosure rate of the top 10 companies is 79% in Egypt and all Egyptian construction companies sampled had a disclosure rate of more than 70%.

5.1. 4 The Recommendations

The Libyan government and Libyan companies must provide improved efforts toward establishing an efficient stock market and improved levels of disclosure. These efforts should include the following requirements:

- Enact a special law concerning capital market operations in Libya;
- Create the structures necessary for the establishment of the Libyan stock market;
- Review and revise all laws and regulations related to economic activities to conform with stock market operations;
- Improve the economic environment that supports the work of the Libyan stock market;
- Improve public awareness of the role of the stock market in the economy;
- Enact laws and regulations on the degree of disclosure and transparency in Libyan financial reports;
- The dissemination of a culture of general investment awareness;
- Provide suitable education to prepare staff for working in the Libyan stock market by developing curricula and methods of teaching financial and investment materials in Libyan universities;
- Enact rules and regulations to deregulate Libyan economic activities;
- Show support to the private sector to obtain the confidence of investors;
- Organise and develop the Libyan accounting and auditing professions and compel companies to apply modern accounting systems;
- Comply with the international accounting standards which develops and adopts domestic accounting standards that are suitable for the Libyan environment;
- Libyan accounting standards must be enacted by law and controlled by the Libyan government and the Libyan Certified and Public Accountants Union;

- The development and construction and maintenance of Libyan economic indicators;
- The creation of a Securities and Financial Markets Commission in Libya;
- Review and introduce improvements to the Libyan banking system;
- Adopt modern systems of company organisation;
- Support the development of an investment and financial analysis industry;
- Encourage the creation of financial information institutions and a financial press;
- Support the Libyan Certified and Public Accountants Union to take leadership of the accounting profession in Libya;
- Support the independence from Government of the Libyan stock market;
- Create Inspectorate divisions from the Ministry of Financial Control; and Ministry of Economy and Trade to protect the investors;
- Gather assistance from the International Finance Corporation and the learning from the experience of other Arab counties in capital markets to help Libya in establishing the stock market;
- Selecting the market authority delegates from the Government, Central Bank, merchants, Businessmen Counsel, and related others;
- Establish one capital market in the capital city of Libya (Tripoli) with the option to open other branches in important cities like Benghazi, Sabha, Sirte, and Misurata if trading circumstances warrant;
- The Libyan banks must be banned from the role of primary market makers when the capital market opens;
- All companies, both private and public, should be listed on the Libyan stock market, if the basic listing conditions are met.

5. 2 Conclusion about Research Questions

The main purpose of this thesis was to answer the primary research question:

> ***"To what extent is an efficient capital market needed in Libya?"***

According to the main findings of this thesis, the capital market is very important to Libyan economic development, because the absence of a capital market causes many negative affects. For example, it has delayed many important reform programmes such as: privatization programmes; attracting investment of foreign capital; and establishing free zones. Also the financial system in Libya faces several developmental challenges relating to limited access to finance by the corporate sector in the absence of a capital market.

As set out in chapter 1, seven sub-questions were proposed. This part presents the conclusions reached about the seven questions. That is, the findings analysed in chapter 4 are compared with the related literature reviewed in chapter 2. Each research question will be discussed in the subsequent sections.

Research Question 1: ***What forms of financial markets exist in Libya? If there are, are they sufficient?***

Financial markets might be classified in a number of ways, such as, Money –v- Capital markets and Primary –v- Secondary markets. The money markets deal in securities with less than one year to maturity whereas the capital markets deal in securities with more than one year to maturity. The primary market is the new issues market. When an investment bank brings a new company to flotation, its shares are issued on the primary market. If this company subsequently decides to raise further finance by issuing bonds, these are also sold on the primary market. Similarly, if a company decides to expand using either equity finance or bond finance, the additional shares or bonds are traded on the primary market. The secondary market is the market in which existing securities are subsequently traded (see: chapter 1: page Nr 3).

More specifically in Libya, the only capital market that exists is an informal primary stock market. Therefore, private companies sell their existing shares through commercial banks or legal firms. However, most of these companies are unable to sell additional shares issued for financing further capital need (see: chapter 1: page Nr 20).

<u>**Research Question 2:**</u> ***What are the negative effects of the absence of a capital market in Libya?***

According to the Libyan experts points of view, the stock market is very important to Libyan economic development and the absence of a stock market causes many negative effects (see: chapter 4: page Nr 109). For example:

- It has delayed privatisation programmes;
- Libyan privatised companies were valued by unfair evaluation techniques because of a local of basic trading information;
- It caused the suspension of Libyan government efforts towards attracting foreign capital investment ;
- Led to increase in the number of bankrupt companies over many years;
- Led to increase in the risk of financial investment in Libya;
- Most Libyan companies are unable to sell additional shares issued for financing further capital investment.
- The short and long term investments opportunities for Libyan companies are hindered.

<u>**Research Question 3:**</u> ***What roles will the capital market play in the Libyan economy?***

The answer to this question is primarily based on the results of interview analysis (see: chapter 4: page Nr 112). The most important roles that the capital market will play in the Libyan economy include:

- Provide companies with the opportunity to obtain additional finance from investors and also provide the investors with investment opportunities;
- Offering many alternative solutions to the problems that face the Libyan economy, such as: the weakness of the Libyan Dinar and unemployment;
- Reduce the risk of financial investment and provide improved protection for investors, especially small investors;
- The reduction in inflation rates and acceleration of economic growth rates;
- Creation of new jobs and a reduction in unemployment rates;
- Encourage the acceleration of reform programmes time scales;
- Encouraging increased production and improvements in the level of competition between Libyan companies;
- Motivation of companies' management to improve its efficiency and cause it to increase profits and the growth of profit rates;
- Facilitation of the creation of alternative financial instruments to tend to personal and institutional savings requirements;
- Contribute to a reduction in the financing costs of ownership and debt;
- Control the circulation of stock market transactions;
- Permit the actual valuation of Libyan companies under privatisation programmes;
- Encouraging investors to invest in securities;
- Encouragement of capital investment;
- Raising individual income levels;
- Improvement in the level of financial disclosure in Libyan companies;
- Allow liquidation of securities easily and provide liquidity to investors.

<u>Research Question 4:</u> ***What are the obstacles to establishing a capital market in Libya?***

The study found many obstacles towards establishing a stock market in Libya. These will require the efforts from the Libyan government and Libyan companies (see: chapter 4: page Nr 111) to reduce or eliminate. These obstacles include:

- An unclear political and economic environment in Libya;
- The absence of laws and regulations that support the operation of stock markets;
- The weakness of public awareness of the role of investment and the role of the stock market in the economy;
- There is no suitable education programmes, to prepare staff for working in the stock markets, available at Libyan universities;
- The low levels of accounting disclosure and transparency in Libya;
- The Libyan government has not shown their support to the private sector;
- The Libyan banking system is not sufficiently well developed;
- The absence of financial information institutions and a financial press.

<u>Research Question 5:</u> ***What is the level of Libyan companies' accounting disclosure?***

According to the checklist analysed (see: chapter 4: page Nr 133), the level of accounting disclosure in Libyan companies is very low. Most of the Libyan sample (75%) has a disclosure rate of between 40% and 60% and there is no company that has a rate of more than 80% disclosure. This compares unfavourably with the Egyptian companies included in the sample that has a disclosure rate of more than 70%.

These results supported the Libyan experts points of view that the level of disclosure in Libya is too low and very weak. Libyan companies should give more attention to their financial reports to raise the level of transparency (see: chapter 4: page Nr 118).

<u>Research Question 6:</u> ***How can a special disclosure index be prepared for Libyan companies?***

Based on the results of the questionnaire (see: chapter 4: page Nr 124), the disclosure checklist provides a special disclosure index (Appendix No. 4).

After reviewing the questionnaire results, the researcher developed a manual for the preparation of the financial statements of Libyan construction companies. The resulting adjustment added eight items which had a rate close to 3.00 (2.96 or more). The researcher believed these items to be very important and must be included (Appendix No. 9).

<u>Research Question 7:</u> ***Will the increased level of accounting disclosure be a success factors in establishing a capital market in Libya?***

In the finance literature, the efficiency of the capital market depends on the availability of information to all investors on time with the minimum level of cost. The Libyan experts felt that the level of disclosure in Libya is too low which might affect the efficiency of the Libyan stock market in the future (see: chapter 4: page Nr 129).

5. 3 Original Contribution to Knowledge

This thesis provides several contributions to the knowledge of capital markets and financial disclosure in developing countries. The following are the main contributions made by this study:

- The study contributed to the existing limited studies on capital markets conducted on developing countries in general and within the Arab context in particular;

- It provided comparative information as a reference about Arab capital markets;
- This study provided to the literature of developing countries a new disclosure checklist and disclosure index.
- This study provided evidence of the extent to which a stock market is needed in Libya;
- The present study presented an analysis of the level of Libyan construction companies' accounting disclosure practices;
- Findings from this study are relevant to Libyan standard setters and regulators for the future direction in developing domestic accounting standards in Libya. Results from this study provide important information on this complex area;
- This study contributes to the limited literature on the financing of firms in transition economies;
- This study makes a contribution to policy formulation and management and it may inform policy makers in the Libyan government. It could also be used as a reference source for Libyan government and companies.

5. 4 Limitations and Further Research

The opportunity to explore and study capital markets and accounting disclosure in developing countries is wide open. However, it is not an easy task since a lot of information regarding accounting disclosure is limited within this region.

As all research has limitations based on the scope of research, there are several limitations to this research study. While addressing and considering several issues, this study has pointed towards several interesting research agendas to pursue following on from the groundwork set by the research in this study such as the generalisation of the findings of this study.

In particular, as follows is a list of limitations and recommendations for further research:

- This study has focused on financial disclosure in corporate annual reports. The annual report of a company is one source of a company's financial information available to the users of that information, but information can be provided in other disclosure channels which were not covered by this study. A future study to extend this to include various alternative sources of information is recommended;
- This study examined disclosure at one point in time, whereas disclosure grows over time. The problems regarding financial disclosure that are considered important in this study might not have been considered as important in the past or in the future. Future study is needed to determine the level of disclosure over a longer period of time;
- Although, most of the user groups of financial statements were surveyed through the use of a questionnaire, this made any possible non-response bias on the part of users difficult to assess. It is recommended to include a large number of user groups in a future study;
- The investigation of the level of financial disclosure contained in this study included the Libyan private construction sector and excluded government owned companies, because they are hugely different in capital size. There might be different results if public companies or other sectors were included in the study. It is recommended to measure the level of accounting disclosure in a future study of all Libyan sectors should be covered to investigate more deeply how far regional harmonization has taken place;
- This study was done in the absence of a stock market in Libya; it might be that different results will be given if this study is repeated after the Libyan stock market opens. It is recommended to repeat the study after the Libyan stock markets start work to see the effects on the Libyan economy and also to identify the difference in disclosure level of Libyan companies;

- The comparative part of this study included a comparison with Egypt construction companies only. A possible area of future study is to compare disclosure in Libya with disclosure in more developing countries;
- This study was limited to the accounts of Libyan construction companies. The accounting disclosure index was tested only in the construction sector. It is recommended that future research work be implemented to test the generalisation potential in other market sectors;
- Despite the fact that it is recognised that this study has some limitations, it is believed that the findings of this study provide a useful insight into the capital markets and the accounting disclosure practices in Libya and provide a starting point for future research.

5. 5 Final Conclusion

This study established and justified an aim to answer the question "To what extent is an efficient capital market needed in Libya?" focusing on accounting disclosure as one of the critical success factors towards an efficient capital market in Libya. The thesis had the following objectives:

- To test the applicability of establishing a capital market in Libya;
- To investigate the obstacles toward establishing a capital market in Libya;
- To examine the problems that can arise in the absence of a capital market;
- To test the quality of accounting disclosure in construction companies' annual reports needed in Libya;
- To prepare an accounting disclosure index which will be used by Libyan construction companies;
- To examine the quantity of information presented by Libyan construction companies in its annual reports.

The study was sponsored by the University of Garyounis through the Libyan Embassy in London to achieve this research project.

The thesis was presented in five chapters; the first chapter provided a general introduction to capital markets and accounting disclosure and information about Libya & the Libyan economy development. The chapter also discussed the motivation and the objectives for the thesis and identified the possible significance of the study.

Chapter two provided an overview of the main literature relevant to: financial markets and economic growth; emerging capital markets; information and the efficiency of the capital markets; capital markets and financial statements; *international accounting* standards and the measurement of the disclosure level. The chapter then provided information about Arab capital markets.

Chapter three highlighted the research methodology and a justification of the methods in general. It presented data collection and analysis techniques used in this study. It also provided a detailed description of the data used in the study.

Chapter four presented the analysis and interpretation of data gathered from this study. The chapter reviewed the data collected about the stock market; and the accounting disclosure in Libya.

Chapter five concluded the thesis with a summary of the results and presented the conclusions; the limitations, and recommendations for further research.

APPENDICES

Appendix No. 1: The Interview Permission

The University of Salford
School of Construction & Property Management
Research Institute for the Built & Human Environment

Dear Sir/Madam,

I am a lecturer at the Department of Accounting, University of Garyounis – Benghazi, Libya. I am currently a PhD student at the School of Construction & Property Management, the University Of Salford- Salford UK.

The main aim of this research is to examine "To what extent the capital market is needed in Libya". It has other objectives, one is to, attempt to design a disclosure index for Libyan companies which should be one of the successful factors of a Libyan capital market in the future.

To achieve the above aims, a questionnaire & interview were designed as methods of collecting data. In the interview, all the questions are about Capital Markets in Libya. However, a questionnaire offers a list of items of information that could be presented in the companies' annual reports according to International Financial Reporting Standards (IFRS).

The researcher chose you as one of his sample to taken an interview with you because of your position, that related with financial system in Libya. He would be grateful if you give him permission to do it, which should take no more than 15 minutes approximately.

Many thanks in advance for your cooperation and you should know the data collected will be treated confidentially and used only for academic purposes.

Yours faithfully

The researcher

Khaled Ellabbar

Appendix No. 2: The Interview Questions

Part I: General questions:

1.The respondent's name and position?

2.How long experience (in this position)?

3.Highest level of education and qualification place (for this level)?

Part II: About the Capital Markets in Libya:

1. To what extent, do you think a capital market is needed in Libya? Why?

2. As you know, there are many kinds of capital market. What kinds, do you think are suitable and important for the Libyan economy? Moreover, why have you chosen it?

3. In Libya as well as in many countries the commercial banks play the role of primary capital markets, do you think that should be continued do that in the future or not?

4. To what extent do you agree that there are many negative effects of the absence of a capital market in new Libyan economic steps, such as: Privatisation policy, attracting investment of foreign capital, boosting the private sector and Establish free zones?

5. Do you think the increase in the number of bankrupt companies has been caused by the absence of a capital market?

6. Could there be many obstacles to establishing a capital market in Libya. In your opinion, what are the important obstacles?

7. What are the important factors to establishing a successful capital market in Libya?

8. The capital market plays an important role in developing the economy, which does the capital market objectify. What are the main roles of a capital market in Libya to developing its economy?

9. To what extent do you think the Libyan capital market will be attracting a foreign capital market?

10. The central bank of Libya has issued, this year, a decision concerning establishment of a small capital market as an office in the central bank, what you think about that?

11. To what extent do you think there should be a capital market (at least a branch) in each of the important Libyan cities, or do you think just one market in the capital city would be enough.

12. When the Libyan capital market is started, do you think just the Private Companies should be registered in it, or all other companies and organisations should be registered?

13. Any capital market issues some rules and regulations about registering in it such as capital, profit, total assets and length of experience, which should be used in Libya.

14. Many people say "the Libyan central bank should control the secondary capital market" Do you agree with that? Why?

15. If you disagree, do you think the capital market should be independent or controlled by others, such as the ministry of finance or ministry of financial control?

16. How important to the Libyan capital market is cooperation with the international Finance Corporation or one of the big international capital markets? Or working under the management of one of them?

17. The efficiency of any capital market depends on the availability of information to all investors; do you think the information issue tools are available in Libya and how can that be improved?

18. Do you think the level of accounting disclosure in Libyan companies is enough to establish an efficient capital market in Libya?

19. If you think that is not enough, how can it be improved?

20. Do you prefer the International Financial Reporting Standards to be used to determine the level of disclosure or should a special disclosure index be established for Libyan companies?

Finally, many thanks for your assistance and if you require a summary of the results of this research to be sent to you by e-mail, please write your e-mail here?

Appendix No. 3: The Disclosure Questionnaire

Dear Sir/Madam

I am a lecturer at the Department of Accounting, University of Garyounis – Benghazi, Libya. I am currently a PhD student at the school of Construction & Property Management, Salford University, Manchester, UK.

One aim of this research is to attempt to design a disclosure index for Libyan companies, which should be one of the successful factors of a Libyan capital market in the future.

To achieve the above aim, a questionnaire has been designed as a method to collecting data. It divided into two parts, first part: about the responder and second part offers a list of items of information that could be presented in the companies' annual reports according to the International Financial Reporting Standards (IFRS).

Subject to your position, that is related to the financial system in Libya. The researcher chose you as one of his sample. He would be grateful if you answer all parts of the enclosed questionnaire, which should no than approximately 15 minutes.

To fill in the first part of this questionnaire, please just tick (√) in the best box that most describes you. Whereas tick (√) in the relevant number in the boxes provided from your point of view in the other part. A five-point scale from **0** to **4** indicating the level of importance you attach to each question or item has been designed as follows:

- **0** = Not at all important (should not be disclosed).
- **1** = Not important (should be disclosed but is of minor importance).
- **2** = Neither importance nor unimportance (Intermediate importance).
- **3** = Important (should be disclosed and item is very importance).
- **4** = Very important (it is essential to disclose this item).

Finally you should be aware that the data collected will be treated confidentially and used only for academic purposes

Many thanks in advance for your cooperation and best wishes to you.

Yours faithfully

The researcher
Khaled Ellabbar
kellabbar@yahoo.co.uk

Note. If you require a summary of the results of this research to be sent you by e-mail, please write your e-mail here:

Part I: About the respondent:
(Please tick (√) in the best box that is most describe you)

1.1 Your positions:

	Academic staff
	Character Accountants & Auditors
	Top management at banks
	Governmental Auditors
	Top management at companies

1.2 Length of experience:

	Up to 5 years
	More than 5 and up to 10 years
	More than 10 and up to 20 years
	More than 20 years

1.3 Qualification (your highest level of education)

	Doctoral Degree
	Master's Degree
	University Degree
	Others (please specify)

1.4 Qualification place (for your highest level of education)

	From Libya
	From USA
	From the UK
	From Egypt
	Others (please specify)

1.5 Your age:

	Under 25 year
	Between 25-35
	Between 35-50
	Between 50-65
	Over 65 year

1.6 Your gender:

	Male		Female

Part II: Design a special disclosure index for Libyan companies:

(Please tick (√) in the relevant number in the boxes provided from your point of view)

Part 1: General disclosures in Annual Report		**0**	**1**	**2**	**3**	**4**
1	A chairman's statement					
2	A Balance sheet					
3	A profit and loss account or Income statement					
4	A cash flow statement					
5	A statement showing all changes in equity					
6	Notes to the financial statements					
7	An Audit report					
8	A management discussion and analysis					
9	Accounting Policies					
10	Company's name, address, Legal Status & Purpose of Activity					
11	Balance sheet date and the period covered by Financial Statements					
12	The level of precision (thousands or millions)					
13	The currency used for the preparation of Financial Statements					
14	Comparative Figures					
15	Number of employees & breakdown into Libyan & non-Libyan					
16	Completed & uncompleted projects					
17	Company plans for the following years & future capital expenditures					
18	Description of organizational structure					
Part2: Accountingp Policies		**0**	**1**	**2**	**3**	**4**
19	The compliance with International Accounting Standards					
20	Accounting Valuation (Historical, Current or Replacement cost)					
21	Foreign currency transactions, translation and differences treatment					
22	Events after the Balance Sheet Date					
23	Revenue Recognition					
24	Valuation of Property, plant & Equipment and Depreciation					
25	Inventory physical count & valuation					
26	Research and development costs					
27	Treatment of Other Intangible Assets					
28	Tax Treatment					
29	Long-term contracts					
30	Changes in accounting policy & the reasons					

Part 3: Income statement and related notes		0	1	2	3	4
31	Revenue of the ordinary activity					
32	Non – operating revenues and gains					
33	Analysis of costs					
34	Operating profit or loss					
35	Finance costs					
36	Profit or loss from ordinary activities before tax					
37	Income Tax expense					
38	Extraordinary items (if any)					
39	Net profit or loss for the period					
40	The amount of dividends per share					
41	Fundamental Errors and how it is treated					
42	Effect of significant changes in accounting policies & estimate					
43	Capital transactions with owners: issues and purchase of own shares					
44	Distributions to owners (e.g. dividends)					
45	The number of shares authorized and breakdown into paid & not paid					
46	Reconciliation of number of shares outstanding at the beginning and end of the year					
47	The amount of dividends that were proposed or declared after the balance sheet date but before the financial statements					
48	Percentage of equity owned by management					
Part 4: Balance sheet and related notes		**0**	**1**	**2**	**3**	**4**
49	Assets order					
50	Assets classification					
51	Gross value of fixed assets					
52	Breakdown of total fixed assets					
53	Net value of fixed assets					
54	Accumulated depreciation for each item of fixed assets					
55	Proportion of fixed assets leased					
56	Schedule of movement in fixed assets					
57	Amount of Intangible assets					
58	Financial assets & investments					
59	Investments in Projects under construction					
60	Market Values of Investments if different from Book Values					
61	Total value of current assets					
62	Total value of Inventories					
63	Market value of Inventories					
64	Breakdown of Inventories					
65	Investment in marketable securities					
66	Market Values of marketable securities					
67	Balances of Receivables					

68	Breakdown of receivables into Trade and others					
69	Cash					
70	Bank balance					
71	Bank balance breakdown (current & deposit)					
72	Liabilities order					
73	Liabilities classification					
74	Total value of loans & long term Liabilities					
75	Secured & unsecured debts by mortgage					
76	Total value of current Liabilities					
77	Classified current Liabilities					
78	Liabilities to Banks					
79	Liabilities to owners					
80	Liabilities to members of the board					
81	Liabilities to Suppliers & Notes Payable					
82	Tax liabilities					
83	Installments of long term loans payable during the year					
84	Dividends Payable					
85	Accrued Expenses					
86	Provisions					
87	Stockholders Equity					
88	Issued capital					
89	Legal reserve & Other reserves					
90	Retained Earnings					
Part5: Cash Flow Statement and related notes		**0**	**1**	**2**	**3**	**4**
91	The main items of cash inflows					
92	The main items of cash outflows					
93	The main items of Cash flows from/for investment activities					
94	Net cash inflow from operating activities					
95	Adjusted by non–cash transactions (depreciation)					
96	The breakdown of cash flows from and to finance activities					
Part6: Other items you think should be added to the disclosure index for Libyan companies:		**0**	**1**	**2**	**3**	**4**
97						
98						
99						
100						

Appendix No. 4: The Disclosure Check List

Name of Company		**Legal Status**	
Date of Financial Statements		**Date of publication**	
Name of Auditor		**Date of Auditor's Report**	

	No	**Items**	Y	NA	ND
Part 1: General disclosures	1	A Balance sheet			
	2	A profit and loss account or Income statement			
	3	A cash flow statement			
	4	A statement showing all changes in equity			
	5	Notes to the financial statements			
	6	An Audit report			
	7	Accounting Policies			
	8	Company's name, address, Legal Status & Purpose of Activity			
	9	Balance sheet date and the period covered by Financial Statements			
	10	The level of precision (thousands or millions)			
	11	The currency used for the preparation of Financial Statements			
Part2: Accounting Policies	12	The compliance with International Accounting Standards			
	13	Accounting Valuation (Historical, Current or Replacement cost)			
	14	Foreign currency transactions, translation and differences treatment			
	15	Events after the Balance Sheet Date			
	16	Revenue Recognition			
	17	Valuation of Property, plant & Equipment and Depreciation			
	18	Inventory physical count & valuation			
	19	Changes in accounting policy & the reasons			
Part 3: Income statement	20	Revenue of the ordinary activity			
	21	Non–operating revenues and gains			
	22	Analysis of costs			
	23	Operating profit or loss			
	24	Finance costs			
	25	Profit or loss from ordinary activities before tax			
	26	Income Tax expense			
	27	Net profit or loss for the period			
	28	The amount of dividends per share			
	29	Fundamental errors and how it is treated			
	30	Effect of significant changes in accounting policies & estimate			
Part 4: Balance sheet	31	Assets order			
	32	Assets classification			
	33	Gross value of fixed assets			
	34	Breakdown of total fixed assets			
	35	Net value of fixed assets			
	36	Accumulated depreciation for each item of fixed assets			
	37	Financial assets & investments			

Part 4: Balance sheet	38	Investments in Projects under construction			
	39	Market Values of Investments if different from Book Values			
	40	Total value of current assets			
	41	Total value of Inventories			
	42	Market value of Inventories			
	43	Breakdown of Inventories			
	44	Investment in marketable securities			
	45	Market Values of marketable securities			
	46	Balances of Receivables			
	47	Breakdown of receivables into Trade and others			
	48	Cash			
	49	Bank balance			
	50	Bank balance breakdown (current & deposit)			
	51	Liabilities order			
	52	Liabilities classification			
	53	Total value of loans & long term liabilities			
	54	Secured & unsecured debts by mortgage			
	55	Total value of current liabilities			
	56	Classified current liabilities			
	57	Liabilities to banks			
	58	Liabilities to owners			
	59	Liabilities to suppliers & notes payable			
	60	Tax liabilities			
	61	Instalments of long term loans payable during the year			
	62	Dividends payable			
	63	Accrued expenses			
	64	Provisions			
	65	Stockholders equity			
	66	Issued capital			
	67	Legal reserve & Other reserves			
	68	Retained earnings			
Part 5: Cash Flow	69	The main items of cash inflows			
	70	The main items of cash outflows			
	71	The main items of cash flows from/for investment activities			
	72	Net cash inflow from operating activities			
	73	Adjusted by non–cash transactions (depreciation)			
	74	The breakdown of cash flows from and to finance activities			

Summary:

Y	yes	the appropriate disclosure has been made
NA	not applicable	the item does not apply to the reporting entity
ND	not disclosed	the item is regarded as not material to the financial statements of the reporting entity
T	Total	Total items included in the checklist
The Disclosure Rate		**R = Y / (T – NA)**

Appendix No. 5: The Description of interviews and Interviewees

The following information concerns the interviews and interviewees ordered by date (most recent interview first):

- **INTERVIEW NO. 1: With Mr. Suleiman Elswohomi, the Chairman (elect) of the Board of Directors of the Libyan Stock Market; and Dr. Faker Elfakeri, Vice Chairman (elect) of the Board of Directors of the Libyan Stock Market.**

  28th August 2006, at the main branch of the Libyan Stock Market, Benghazi.

Mr. Elswohomi has an MSc in Accounting from the University of Garyounis in Libya and has been a Lecturer in Accounting for about 10 years. He has worked as the manager of the General Management of Economical Studies and Research under the Libyan General People's Committee for Economy and Trade.

Dr. Elfakeri has a PhD in Accounting from Liverpool University in the UK in 2005. He has been a Lecturer in Accounting and Finance for about 10 years. Mr. Elswohomi started by summarizing the steps taken towards the establishment of the Libyan stock market. The task of establishing the stock market was entrusted to the secretariat of the Libyan General People's Committee for Economy and Trade by the Libyan government decision (No. 105/ 2005). They finished the review and then spoke about opening the head office of the Libyan stock market in Benghazi.

Dr. Elfakeri concluded by talking about the three objectives that were achieved by the establishment of the Libyan stock market: helping the development of the Libyan national economy; providing protection to investors; and control of stock market transactions.

- **INTERVIEW NO. 2: With Professor Salem Bengharbia, Chairman of the Libya Insurance Company.**

  15th July 2004, at the Libya Insurance Company, Benghazi.

The Libya Insurance Company is the only public insurance company in Libya. **Professor Bengharbia** obtained a PhD in Accounting from Louisiana State University in the USA in 1982. Since then, he has been teaching at the University of Garyounis in Benghazi, Libya. He was appointed to many positions such as, Secretary of the Libyan Finance Ministry, Member of the Audit Committee of the Arab Insurance Group, Head of the Economic Research Centre in Benghazi and as the editor of "The Journal of Studies in Economics" (Arabic and English). [At present, since October 2005, he is the Chairman of the Board of Directors of the Alwahda Bank- added subsequent to the interview].

Professor Bengharbia believes that the stock market is very important for the Libyan economy as well as being essential for new economic programmes. For example, in privatisation programmes it will help in the evaluation of companies. Also he believes that foreign investors are looking for a stock market and transparency before they enter and invest in Libya. But he believes that Libyan public companies need restructuring and rehabilitation before being listed on the stock market.

He also pointed out that Libyan companies, in the light of globalisation, must comply with international accounting standards which will improve the level of disclosure of Libyan companies. He added that there are efforts already underway by a special committee towards the issue of domestic accounting standards in Libya.

- **INTERVIEW NO. 3: With Mr. Ahmed Balkhair, Vice Chairman of the Board of Directors of the Libyan National Commercial Bank.**

14th July 2004, at the Libyan National Commercial Bank, Benghazi.

The Libyan National Commercial Bank is one of the five public commercial banks in Libya.

Mr. Balkhair obtained an MSc in Accounting from the USA in the 1970s, since then he has been working as a lecturer of accounting and lectures in many Libyan Colleges and Universities. He is a member of the Board of Directors of the Libyan Arab Foreign Bank and a member of the Board of Directors of the Housing Bank for Trade & Finance in Jordan.

During the interview Mr. Balkhair stressed that in the light of ongoing privatization programs the transition economy is in need of a stock market in Libya which could play an important role in evaluating companies under privatisation.

Mr. Balkhair believes that the economic environment in Libya is not ready for a full stock market. The dominance of the public sector in the Libyan economy forces the need for further efforts to make the environment ready. It also needs cooperative efforts with international organisations or other Arab countries, especially Tunisia and Jordan, in establishing stock markets.

According to Mr. Balkhair, the disclosure level is too low in Libya, although an improvement could be achieved by creating institutions which provide information.

- **INTERVIEW NO. 4: With Mr. Saad Algoroshey, Vice Chairman of The National Benghazi Bank.**

13th July 2004, at the Regional Benghazi Bank, Benghazi.

The Regional Benghazi Bank is one of the biggest private banks in Libya. **Mr. Algoroshey** has a BSc in Accounting and has more than 30 years experience in the banking sector.

Mr. Algoroshey states that it is necessary for the Libyan economy to establish a stock market which will support the development of the Libyan economy, and contribute to raising the quality and the degree of awareness among the public.

As he is an expert banker, he spoke about the need to support and develop the banking sector. He differentiates between primary market operations and secondary market operations. He thinks that in the future the stock markets in Libya should focus on the circulation operation only and leave the issue operation to commercial banks. This is a proposal that he thinks will be supported by the banking sector.

- **<u>INTERVIEW NO. 5:</u> With Professor Saddeg Busniena, the Head of the Management Department at the Academy for Higher Studies.**

12th July 2004, at the Academy for Higher Studies, Benghazi.

Prof. Busniena obtained a PhD in Management in 1977 from Louisiana State University in the USA. Since then, he has been teaching at the University of Garyounis in Benghazi, Libya. He is currently working as the Head of the Management Department at Garyounis University. In addition, he was the Chairman of the Federation of Libyan Chambers of Commerce, Industry, and Agriculture and the General Union of Magarabeeh Federation of Chambers of Commerce, Industry, and Agriculture.

Professor Busniena began this interview by stressing that the most modern economy policies in Libya, particularly privatisation programs, require the existence of a stock market. He reiterated that it was necessary for the government to enact a special law to regulate the stock market. This will lead to the automatic creation of a market.

He believes that the most important constraint toward the establishment of Libyan stock market is the deficit of qualified people to work in capital markets. For this reason Libya must send staff to undergo training abroad to be qualified to work on stock market. He said that the Libyan stock market should work in co-operation with international organisations until their staff are suitably qualified.

- **<u>INTERVIEW NO. 6</u>: With Dr. Abdulsalam Elbadry, the Chairman of the Libyan Company for Engineering Consultants.**

11th July 2004, at the Libyan Company for Engineering Consultants, Benghazi.

The Libyan Company for Engineering Consultants is one of the biggest private companies in Libya.

Dr. Elbadry obtained a PhD in Accounting in 1985 from Dundee University in the UK. Since then, he has been teaching at the Department of Accounting, University of Garyounis in Benghazi, Libya; and has worked as the Head of Garyounis University Lecturers Union for 4 years. He is currently working as a chartered accountant and a member of the Control Committee of the Libyan Stock Market. This committee is evolving and has yet to be formally constituted and approved.

Dr. Elbadry, as a businessman with more than 25 years of financial experience, focused on the importance of the stock market in Libya but he believes that the environment is not yet ready because of the following reasons: a lack of public awareness about the role of stock market in the economy; there is no suitable education programme to prepare staff for working in such stock markets; there are no suitable laws and regulations for Libyan economic activities.

From his point of view, the small stock market which had been established inside the bank was not in the correct place because the required role of the stock market is different from that required by the banking system. He added that the stock market should be a private company established in association with international stock markets.

- **<u>INTERVIEW NO. 7:</u> With Mr. Saddeg Alsherkase, Secretary of the People's Committee for Tourism, Shabiat Benghazi.**

11th July 2004, at the People's Committee for Tourism, Benghazi.

Mr. Alsherkase obtained an MSc in Accounting in the 1980s. Since then, he has been teaching Accounting at the Higher College of Management Science, where he has been the head of the college for about five years. He works as a part time lecturer at the University of Garyounis and many other Libyan universities. He has worked as the head of the Tourist College and as a manager of the Tourist Village in Benghazi.

Mr. Alsherkase, as one of the leaders of the tourism sector in Libya, focused on problems that the tourism sector faces. The tourism service is one of the most significant sectors in the new Libyan economy. According to Mr. Alsherkase, the Libyan government has been trying to attract both foreign and local investors to the tourism sector but with no great success, mainly because of the lack of confidence and the absence of a stock market in Libya.

- **INTERVIEW NO. 8: With Mr. Tawfeeq Elhousady, Legal Consultant.**

10th July 2004, at Elhousady Law office, Benghazi.

Mr. Elhousady, as a legal expert, focused on the legal aspects associated with the establishment of a stock market in Libya because it will contribute to the solution of many problems related to the establishment of joint stock companies and also to the circulation of their shares.

Mr. Elhousady reviewed the history of the establishment and development of Libyan companies. He stated that the companies began their activities in Libya as branches of foreign companies, then after Libyan independence, the first company was incorporated as a personal company, then later as joint stock banks and companies.

He believes that for a company to be listed on the stock market, it must possess a good financial record. He further said that the stock market should be under control of the Economy Ministry.

- **INTERVIEW NO. 9: With Professor Mahmoud Badi, Professor of Accounting at the University of Garyounis.**

8th July 2004, at the University of Garyounis, Benghazi.

Prof. Badi obtained a PhD in accounting in 1979 from the University of Oklahoma in the USA. Since then, he has been teaching at the University of Garyounis in Benghazi, Libya and he is a chartered accountant.

He was previously the Chairman of the Board of Directors of the Alwahda Bank; prior to this he worked as the Secretary of the General People's Committee for Public Control for about 3 years; as well as the Chairman of the Board of the Tybesty Company for cars. [Since July 2006, he has been appointed as the Chairman of the Benghazi Chamber of Commerce, Industry, and Agriculture-added subsequent to the interview].

Prof. Badi believes that the Libyan environment has become almost ready to accept an emerging stock market; the little that remains to be done is the amendment of a number of laws and regulations; and the de-restriction of the Libyan economy. He added that the absence of a stock market had caused many negative effects especially on privatisation programmes because privatised companies are evaluated by incorrect valuation methods.

As an auditing expert, Prof. Badi believes that the level of accounting disclosure is too low and this will improve automatically after the emergence of the stock market in Libya. He believes that Libya needs to issue domestic accounting standards in the near future.

- **INTERVIEW NO. 10: With Dr. Jumaa Elhassy, Director of the Tax Department, Finance Ministry.**

7th July 2004, at the Tax Department office, Benghazi.

Dr. Elhassy completed his PhD in Accounting in 1980 from The University of Oklahoma in the USA. Since then, he has been teaching at the Accounting Department, University of Garyounis and in many other colleges and universities in Libya. In addition, he is a chartered accountant with more than 30 years experience.

The interview with Dr. Elhassy reflects his personal point of view and also reflects the point of view of the Tax Department about the emerging stock market in Libya. He began with a focus on the new tax law (2004) which he believes is not keeping pace with modern technology and recent economic developments in Libya. For example there is no article related to the privatisation process or stock market transactions. As a result of that, the tax department will calculate the income tax for these processes as a stamp tax on contracts only.

Regarding the disclosure of information, Dr. Elhassy believes that, so far, there are no users of information and no awareness of the importance of this information. He believes the level of disclosure will evolve automatically after the appearance of a stock market in Libya. Also Dr. Elhassy stressed that developing domestic accounting standards will help Libyan companies to make more effective accounting disclosure. These standards must be enacted by law and controlled by the Libyan Finance Control Committee and the Libyan Certified and Public Accountants Union.

- **INTERVIEW NO. 11: with Professor Abdualazeez Altarhoune, Lawyer and Professor of Commercial Law.**

6th July 2004, at the Primary Court, Benghazi.

Prof. Altarhoune obtained a PhD in Law from the UK 20 years ago, since then, he has been teaching at the University of Garyounis in Benghazi, Libya. As a legal expert and author of books on commercial law, Prof. Altarhoune stated that stock market transactions are one of economic activities allowed by the Libyan Commercial Code which was enacted more than fifty years ago in 1953.

He also added that there is minimal disclosure required by the Libyan Commercial Code (1953) but that the Libyan companies are not even complying with these requirements. There is no institute in power that enforces companies to apply these requirements.

- **INTERVIEW NO. 12: With: Mr. Mohamed B. Al Bargati, Vice Chairman of the Board of Directors of the Bank for Savings and Investment in Real Estate.**

6th July 2004, at the Bank for Savings and Investment in Real Estate branch, Benghazi.

Mr. Al Bargati obtained an MSc in Accounting from the USA in the 1970s, since then he has been working as a chartered accountant and a lecturer of accounting at many Libyan universities. In addition, he worked as Vice Chairman of the Libyan Accountants and Auditors Union for more than 10 years.

Mr. Albargati, as a manager of a Real Estate Bank, focused his point of view on the banking and real estate sector and on the importance of the existence of the

Libyan stock market. He believes that the creation of a stock market in Libya will have an impact on the banking and real estate sectors.

Mr. Al Bargati believes that to improve the accounting profession in Libya, more leadership is needed from the Libyan Accountants and Auditors Union.

Regarding the accounting disclosure level in Libya, Mr. Al Bargati believes that the level is too low therefore the Libyan government must support and make stronger the union and oblige all Libyan companies, by law, to comply with the international accounting standards until domestic accounting standards can be developed for Libya.

- **<u>INTERVIEW NO. 13:</u> With Mr. Ramadan Swedik, Chartered Accountant, and Financial Expert.**

5th July 2004, at his office, Benghazi.

Mr. Swedik obtained an MSc in Accounting from Ball State University, in the USA in the 1980s. Since then, he has been teaching Accounting at the University of Garyounis. He has also worked as Head of the General Company for Pipes in Benghazi. [Since December 2006 he has been appointed as a Board Member (elect) of the Libyan Stock Market - added subsequent to the interview].

Mr. Swedik believes that the Libyan economic environment needs a lot of effort in order to be able to embrace the stock market culture. The degree of public awareness of the importance of the market is too low and the role of the private sector is still weak. He also focused on the need to review all laws regulating economic activities and trade in Libya. He added an important point that the Libyan government must remove all obstacles towards the transfer of foreign currency as an important step to cultivating confidence in the private sector.

As he is a financial expert, he focused on the important role that accounting disclosure plays in establishing a stock market and he believes that the disclosure level is too low in Libya which needs to be improved by both law and standards.

- **<u>INTERVIEW NO. 14:</u> With Professor Attia Elfeituri, Director of the Economic Research Centre.**

4th July 2004, at the Economic Research Centre, Benghazi.

The Economic Research Centre is under the Ministry of Economy and Trade.

Prof. Elfeituri obtained a PhD in Economics from the University of Pittsburgh in the USA in 1977. Since then, he has been teaching economics at the University of Garyounis in Benghazi, Libya, he was also the Dean of the Faculty of Economics at the same university for about four years. [In 2005, he was appointed as the Libyan Minister of Education by the Libyan Congress for one year, and today he is the Dean of the University of Garyounis in Benghazi, since September 2006- added subsequent to the interview].

Professor Elfeituri believes that the Libyan economic environment is now ready to embrace the existence of a stock market, more so than in previous years. He believes that this market will provide companies with the opportunity to obtain finance from investors and also provide the investors with investment opportunities.

On the other hand, he believes that there is a need to: amend many of the laws regulating the Libyan economic activities; improve the Libyan banking system; and update the communications networks; all of which will help the successful emergence of the Libyan stock market.

According to Prof. Elfeituri, the level of disclosure of Libyan companies is very weak and needs interference, hence modification and development from the General People's Committee for the Financial and Technical Control.

- **<u>INTERVIEW NO. 15:</u> With Mr. Guider I. Guider, Investment Department Manager, Libyan Foreign Investment Board.**

4th July 2004, at the Libyan Foreign Investment Board branch, Benghazi.

The Libyan Foreign Investment Board is a governmental board for the encouragement of foreign capital investment into Libya).

Mr. Guider has a BSc from the University of Garyounis in 1995. He has been working as a Civil Engineer for more than ten years. He is also a businessman owning shares in a number of Libyan private companies.

Mr. Guider has contact with foreign companies that are struggling to expand their activities into Libya; due to his knowledge about these companies, he focused in this interview on a number of existing barriers that prevent foreign investors finding superior investment opportunities in Libya.

Mr. Guider believed that the absence of a stock market in Libya is one of the most important barriers towards investing in Libya. As a Libyan investor, he stresses the importance of the stock market for him personally and for the Libyan economy in general.

- **INTERVIEW NO. 16: With Mr. Ali Elsahely, Chairman of the General Company for Wires and Electrical Products (WEP).**

  3rd July 2004, at the General Company for Wires and Electrical Products, Benghazi.

Mr. Elsahely has BSc in Accounting and has more than 30 years experience as a chartered accountant. He worked as the Manager of Finance at the General Company for Textiles and Clothing for about 20 years.

Mr. Elsahely focused on the problems that faced public companies, like WEP, when offered for privatization which start from the financial evaluation for the purposes of privatisation. About the future, Mr. Elsahely believes that the Libyan stock market must be an independent company with strong listing conditions including: high capitalisation; and high profits.

He also considered the improvement in the level of transparency and disclosure within Libyan companies was important because he thinks that the level is very weak but it can be improved by high level control and the issuing of Libyan accounting standards.

- <u>INTERVIEW NO. 17:</u> **With Mr. Jamal Abdulmalek, the Chairman of the Bank of Commerce & Development.**

30th June 2004, at the Bank of Commerce & Development, Benghazi.

Mr. Abdulmalek has an MSc in Accounting from the USA. He has about 40 years of experience in the banking sector.

The Bank of Commerce & Development is the biggest private bank in Libya. Mr. Abdulmalek is one of the most famous banking experts in Libya.

According to him, the stock market is very important for the Libyan economy but the establishment of a financial market requires a long period of time.

He believes that before the emergence of a Libyan stock market, a lot of effort is needed, such as: increased awareness of the role of stock companies in the community; boost the confidence in the private sector; development of the Libyan banking system; and development of communication systems.

Regarding accounting disclosure, Mr. Abdulmalek believes that the level of disclosure in Libya is very weak and the companies should give more attention to their financial reports and also raise the level of transparency. He stresses the need for having a financial press to provide financial information.

- <u>INTERVIEW NO. 18:</u> **With Mr. Mohamed Abseer, Board Member of the Libyan Businessmen Council.**

28th June 2004, at the Libyan Businessmen Council, Tripoli.

Mr. Abseer started the interview by giving some information about the Libyan Businessmen Council and its role in the Libyan economy. The Council is one of the Union of Chambers of Commerce and Industry working mechanisms, the main objectives of the Council are to: assist businessmen in all fields and protect their rights; enhance the development of cordial relationships between Libya businessmen and their counterparts; and to exchange trade information and technology services.

He also explained the point of view of the Council about establishing a stock market in Libya. They think that the Libyan economy has been almost paralysed because of the absence of a stock market and the economy will be stimulated when the Libyan stock market emerges.

Mr. Abseer also spoke about the small stock market inside the Libyan Central Bank, which was unsuccessful because it was enacted by a decision and not by law.

According to his point of view, the stock market will offer many solutions to the problems that face the Libyan economy, such as: the weakness of the Libyan Dinar and unemployment. However the establishment of the stock market requires many efforts towards: reviewing related Libyan laws; deregulation of foreign currency restrictions and currency transactions controls; improvement in banking services; and to give the stock market its independence.

- **INTERVIEW NO. 19: With: Dr. Saleh El-Arbah, Account & Investment Division Manager in the Central Bank of Libya.**

27th June 2004, at the Central Bank of Libya, Tripoli.

Dr. El-Arbah has a PhD in Finance from Hungary with over 25 years of work experience in the banking sector.

Dr. El-Arbah spoke about the small stock market inside the Libyan Central Bank (which is part of the Account & Investment Division). He explained how the market was created and how it had worked [before the General People's Committee in Libya decided to stop their activities and ordered its closure in 2006]. According to the personal opinion of Dr. El-Arbah, this step was a good and important approach which also succeeded.

In this regard he said that when the Central Bank of Libya started thinking about the establishment of a stock market in Libya, there were two approaches: establishing a full stock market or a small market (as an intermediate point towards full integration). The Bank decided to apply the second approach by creating a small room inside the Central Bank of Libya to circulate securities as a preliminary step to building an effective stock market.

- **INTERVIEW NO. 20: With Mr. Jumaa Alasta, Chairman of the Assada Establishment for Trade and Investment.**

26th June 2004, at the Assada Establishment for Trade and Investment, Tripoli.

Mr. Alasta obtained a BSc in Accounting and is currently doing an MSc in Finance at the Academy of Postgraduate Studies in Tripoli.

Mr. Alasta, as a businessman and a Board Member of the Libyan Businessmen Council, emphasised the importance of a stock market role in Libya and stressed the needs of a variety of priorities before the establishment of a stock market in Libya. One of the most important priorities, before opening the market and listing companies in the market, is the need of creating companies with improved levels of disclosure and transparency.

Mr. Alasta believes that the political support of the Libyan government and their institutions is not clear regardless of the process towards a free market. He remarked that the government must show support to the private sector to obtain the confidence of investors. He also spoke about his own experience in launching the first financial newspaper in Libya, which was printed in Italy for a few months until financial problems forced its closure.

- **INTERVIEW NO. 21: With Professor Ahmed Menesi, Governor of the Central Bank of Libya.**

26th June 2004, at the Central Bank of Libya, Tripoli.

The interview started face to face, but because the interviewee was very busy, the researcher left the interview questions with him and collected the written answers later.

Prof. Menesi completed his PhD in Economics in 1972 from Cologne University in Germany. Since then, he has been teaching at the University of Garyounis in Benghazi, Libya. He is one of the founders, and president for about ten years of the Libyan Economic Association. From March 2001upto March 2006, he has been the Governor of the Central Bank of Libya. [On 5th March 2006, he was appointed as the Secretary of the General People's Committee of Finance (the Minister of Finance) by the Libyan Congress- added subsequent to the interview].

Prof. Menesi believes that the existence of a stock market in Libya will increase the economic activities and improve its efficiency level. According to him, the probable key is how to create the appropriate factors to establish an active stock market. He believes that one necessary factor is the existence of a special law which regulates how the financial market should work and also create economic opportunities.

Prof. Menesi also explained the value of operating a small stock market inside the Libyan Central Bank as an important step towards gaining the investors' confidence.

- **INTERVIEW NO. 22: With Mr. Noralden Albakoush, Chairman of the General Company for Textiles and Clothing (GTC).**

  24th June 2004, at the main branch of the General Company for Textiles and Clothing, Benghazi.

Mr. Albakoush has a BSc in Economics and is currently doing an MSc at the University of Garyounis.

According to Mr. Albakoush, Libya's delay in setting up its stock market has caused many negative aspects. The establishment of a stock market will help in Libyan economic development. He would prefer that the Libyan stock market would play both roles expected from primary and secondary markets and that bonded commercial banks could play any of these roles.

Concerning the GTC Company – a company to be privatised, Mr. Albakoush spoke about the problems of the procedure of privatisation in the light of the absence of the stock market.

- <u>INTERVIEW NO. 23:</u> **With Mr. Magdy Anower, Legal Consultant.**

  23rd June 2004, at Anower Law office, Benghazi.

Mr. Anower has a BSc in Law from the University of Garyounis in Libya and more than 20 years experience working with Companies Contracts.

Mr. Anower is the manager and the owner of one of the largest specialist law firms in Libya working with company and contract law and contract drafting and negotiation. Through his firm, many private companies issue and transfer the ownership of their shares with the cooperation of a commercial bank.

From the legal point of view, Mr. Anower believes that the stock market is very import in Libya with an urgent need because of the negative impacts caused by the absence of a stock market. For example, many companies face many financial problems when issuing new shares or when one or some of the shareholders wish to sell their shares. As a way out, many companies reduce their capital or sometimes liquidate the company.

Mr. Anower also believes that new laws regulating the economy and banking could contribute to solving some of the legal problems, but there is a need to amend and cancel many other laws and regulations which will be required in the light of new economic trends towards a free market economy.

Appendix No. 6: The summary of all responses by groups

The groups	Character Accountants		Academic Staff		Top Management		Governmental Auditors		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Total numbers	**37**	**25%**	**42**	**29%**	**25**	**17%**	**43**	**29%**	**147**	**100%**
The Length of experience										
Under 5 years	10	27%	7	17%	5	20%	14	33%	36	24%
5 - 10 years	7	19%	9	21%	3	12%	11	26%	30	20%
11 - 20 years	6	16%	7	17%	6	24%	12	28%	31	21%
More than 20	14	38%	19	45%	11	44%	6	14%	50	34%
Qualification										
Doctoral Degree	10	27%	5	12%	2	8%	0	0%	17	12%
Master's Degree	25	68%	9	21%	6	24%	3	7%	43	29%
University Degree	2	5%	28	67%	17	68%	40	93%	87	59%
Qualification place										
From Libya	20	54%	29	69%	18	72%	42	98%	109	74%
From Egypt	1	3%	3	7%	1	4%	0	0%	5	3%
From the UK	4	11%	3	7%	2	8%	0	0%	9	6%
From the USA	12	32%	7	17%	4	16%	1	2%	24	16%
Others	0	0%	0	0%	0	0%	0	0%	0	0%
Age groups										
Under 25 year	2	5%	0	0%	0	0%	2	5%	4	3%
Between 25-35	11	30%	12	29%	3	12%	25	58%	51	35%
Between 36-50	12	32%	15	36%	15	60%	13	30%	55	37%
Between 51-65	12	32%	15	36%	7	28%	3	7%	37	25%
Over 65 year	0	0%	0	0%	0	0%	0	0%	0	0%

Appendix No. 7: The summary of the Mean Responses

No.	Items	Accountant	Academic	Manager	Auditor	Mean
1	A chairman's statement	2.833	3.081	3.125	2.930	2.973
2	A Balance sheet	3.857	3.946	3.875	3.884	3.891
3	A profit and loss account or Income statement	3.857	3.946	3.875	3.791	3.864
4	A cash flow statement	3.548	3.622	3.375	3.488	3.517
5	A statement showing all changes in equity	3.071	3.189	3.250	2.930	3.095
6	Notes to the financial statements	3.452	3.676	3.375	3.326	3.463
7	An Audit report	3.690	3.892	3.542	3.558	3.680
8	A management discussion and analysis	2.905	2.946	2.958	2.930	2.939
9	Accounting Policies	3.000	3.351	2.708	2.930	3.027
10	Company's name, address, Legal Status & Purpose of Activity	2.929	3.324	3.000	2.930	3.048
11	Balance sheet date and the period covered by Financial Statements	3.571	3.622	3.542	3.674	3.612
12	The level of precision (thousands or millions)	3.310	3.405	3.292	3.140	3.286
13	The currency used for the preparation of Financial Statements	3.262	3.486	3.083	3.209	3.279
14	Comparative Figures	3.095	2.892	3.250	2.791	2.980
15	Number of employees & breakdown into Libyan & non-Libyan	1.833	1.865	1.958	2.070	1.932
16	Completed & uncompleted projects	2.500	2.568	2.583	2.930	2.660
17	Company plans for the following years & future capital expenditures	2.833	3.108	2.833	2.814	2.905
18	Description of organizational structure	2.310	2.595	2.708	2.465	2.490
19	The compliance with International Accounting Standards	3.143	3.081	3.167	3.395	3.204
20	Accounting Valuation (Historical, Current or Replacement cost)	3.071	3.324	3.125	2.953	3.116

No.	Items	Accountant	Academic	Manager	Auditor	Mean
21	Foreign currency transactions, translation and differences treatment	3.071	3.054	3.000	3.163	3.082
22	Events after the Balance Sheet Date	2.905	3.405	2.708	3.047	3.041
23	Revenue Recognition	3.048	3.189	3.208	3.209	3.156
24	Valuation of Property, plant & Equipment and Depreciation	3.310	3.297	3.375	4.372	3.626
25	Inventory physical count & valuation	3.381	3.189	3.500	3.349	3.340
26	Research and development costs	2.786	3.000	2.708	2.791	2.830
27	Treatment of Other Intangible Assets	2.810	2.838	2.750	2.698	2.776
28	Tax Treatment	2.929	3.000	3.000	2.907	2.959
29	Long-term contracts	2.976	2.973	2.792	3.093	2.986
30	Changes in accounting policy & the reasons	3.238	3.243	2.917	3.093	3.150
31	Revenue of the ordinary activity	3.714	3.838	3.792	3.791	3.782
32	Non–operating revenues and gains	3.524	3.568	3.292	3.651	3.537
33	Analysis of costs	3.095	3.216	2.958	3.372	3.184
34	Operating profit or loss	3.595	3.622	3.250	3.674	3.571
35	Finance costs	3.095	3.243	3.208	3.395	3.245
36	Profit or loss from ordinary activities before tax	3.452	3.676	3.667	3.581	3.585
37	Income Tax expense	3.238	3.405	3.417	3.209	3.306
38	Extraordinary items (if any)	2.786	3.270	2.917	2.953	2.980
39	Net profit or loss for the period	3.619	3.784	3.708	3.628	3.680
40	The amount of dividends per share	2.952	3.514	3.750	2.953	3.231
41	Fundamental errors and how they are treated	3.000	3.216	3.083	2.860	3.027
42	Effect of significant changes in accounting policies & estimate	3.048	3.216	3.042	2.744	3.000
43	Capital transactions with owners: issues and purchase of own shares	2.643	2.919	3.167	2.581	2.789
44	Distributions to owners (e.g. dividends)	2.929	3.216	3.375	2.605	2.986
45	The number of shares authorized and breakdown into paid & not paid	2.833	2.730	3.125	2.814	2.857

No.	Items	Accountant	Academic	Manager	Auditor	Mean
46	Reconciliation of number of shares outstanding at the beginning & end of the year	2.643	2.757	2.958	2.581	2.714
47	The amount of dividends that were proposed or declared after the balance sheet date but before the financial statements	2.929	2.757	3.417	2.837	2.946
48	Percentage of equity owned by management	3.000	2.730	3.208	2.860	2.932
49	Assets order	3.262	3.486	3.417	3.209	3.327
50	Assets classification	3.381	3.541	3.417	3.279	3.401
51	Gross value of fixed assets	3.405	3.405	3.458	3.419	3.422
52	Breakdown of total fixed assets	3.214	3.243	3.625	3.302	3.320
53	Net value of fixed assets	3.333	3.432	3.542	3.395	3.415
54	Accumulated depreciation for each item of fixed assets	3.119	3.297	3.250	3.302	3.238
55	Proportion of fixed assets leased	2.976	2.892	2.875	2.884	2.912
56	Schedule of movement in fixed assets	2.571	2.541	2.792	2.814	2.680
57	Amount of Intangible assets	2.976	3.081	2.833	2.907	2.966
58	Financial assets & investments	3.167	3.405	3.417	3.512	3.374
59	Investments in Projects under construction	2.905	3.108	3.083	3.302	3.109
60	Market Values of Investments if different from Book Values	2.952	3.027	3.208	3.116	3.061
61	Total value of current assets	3.333	3.432	3.458	3.302	3.374
62	Total value of Inventories	3.500	3.459	3.708	3.442	3.510
63	Market value of Inventories	3.238	3.297	3.292	3.116	3.231
64	Breakdown of Inventories	3.071	3.000	3.208	3.209	3.122
65	Investment in marketable securities	3.119	3.378	3.333	3.326	3.286
66	Market Values of marketable securities	2.810	3.216	3.083	3.116	3.054
67	Balances of Receivables	3.333	3.405	3.167	3.302	3.320
68	Breakdown of receivables into Trade and others	3.238	3.243	3.083	3.093	3.177
69	Cash	3.500	3.459	3.500	3.488	3.490
70	Bank balance	3.667	3.568	3.625	3.605	3.619

No.	Items	Accountant	Academic	Manager	Auditor	Mean
71	Bank balance breakdown (current & deposit)	3.381	3.324	3.542	3.395	3.401
72	Liabilities order	3.333	3.378	3.000	3.302	3.286
73	Liabilities classification	3.333	3.514	3.167	3.302	3.347
74	Total value of loans & long term liabilities	3.310	3.459	3.167	3.256	3.313
75	Secured & unsecured debts by mortgage	3.262	3.432	3.250	3.186	3.286
76	Total value of current liabilities	3.214	3.270	3.208	3.163	3.218
77	Classified current liabilities	3.119	3.324	2.875	3.186	3.156
78	Liabilities to banks	3.452	3.378	3.417	3.326	3.395
79	Liabilities to owners	3.167	3.108	3.375	3.116	3.177
80	Liabilities to members of the board	3.000	2.919	3.083	2.953	2.986
81	Liabilities to suppliers & notes payable	3.333	3.378	3.500	3.233	3.347
82	Tax liabilities	3.381	3.351	3.542	3.512	3.442
83	Instalments of long term loans payable during the year	3.190	3.378	3.417	3.302	3.313
84	Dividends payable	3.024	3.108	3.333	3.093	3.122
85	Accrued expenses	3.262	3.270	3.375	3.326	3.306
86	Provisions	3.310	3.270	3.500	3.279	3.327
87	Stockholders equity	3.476	3.486	3.625	3.465	3.503
88	Issued capital	3.452	3.568	3.667	3.488	3.531
89	Legal reserve & other reserves	3.357	3.405	3.583	3.512	3.456
90	Retained earnings	3.405	3.514	3.583	3.442	3.476
91	The main items of cash inflows	3.381	3.649	3.583	3.395	3.483
92	The main items of cash outflows	3.429	3.703	3.625	3.419	3.524
93	The main items of cash flows from/for investment activities	3.119	3.351	3.208	3.349	3.265
94	Net cash inflow from operating activities	3.357	3.541	3.417	3.372	3.422
95	Adjusted by non–cash transactions (depreciation)	3.024	3.297	2.708	3.023	3.041
96	The breakdown of cash flows from and to finance activities	3.357	3.459	3.083	3.279	3.313
	Aver	**3.168**	**3.276**	**3.241**	**3.182**	**3.216**

Appendix No. 8: The Libyan Construction Companies Sample

NO.	Company Name	Year of Establishment	Capital Size (In MLD)	Main Branch	Arabic Name
1	Akakous	1999	1.2	Tripoli	شركة اكاكس للمقاولات
2	Alahram	1995	1.0	Tripoli	شركة الاهرام للمقاولات
3	Alaman	2000	1.0	Benghazi	شركة الامان للمقاولات
4	Alaotad	1996	1.5	Benghazi	شركة الاوتاد للمقاولات
5	Alarabiah	1999	4.0	Tripoli	شركة العربية للمقاولات
6	Alarf	1997	1.0	Benghazi	شركة العارف للمقاولات
7	Alatawes	1998	1.0	Tripoli	شركة الاطواس للمقاولات
8	Albena Alegtesady	1997	5.0	Benghazi	شركة البناء الاقتصادي للمقاولات
9	Albida	1996	1.0	Benghazi	شركة البيداء للمقاولات
10	Aldaher	1999	1.0	Tripoli	شركة الظاهر الابيض للمقاولات
11	Alfareeq Alakhdert	2000	1.0	Tripoli	شركة الفريق الاخضر للمقاولات
12	Alfeed	1996	1.0	Benghazi	شركة الفيض للمقاولات
13	Alhagar Alsenaey	1995	1.0	Tripoli	شركة الحجر الصناعي للمقاولات
14	Alhandaseeh	1996	1.0	Tripoli	شركة الهندسية للمقاولات
15	Almadaen	1995	1.0	Benghazi	شركة المدائن للمقاولات
16	Almadeenah	1999	2.7	Tripoli	شركة المدينة للمقاولات
17	Almahaour	1998	1.0	Tripoli	شركة المحاور للمقاولات
18	Almanarah	1996	1.0	Benghazi	شركة المنارة للمقاولات
19	Almater	1997	2.5	Tripoli	شركة المطر للمقاولات
20	Almeeqat	1996	1.0	Benghazi	شركة الميقات للمقاولات
21	Almetahedon	1998	2.0	Benghazi	شركة المتحدون للمقاولات
22	Akakous	1996	1.0	Tripoli	شركة اكاكس للمقاولات
23	Alahram	1996	3.0	Tripoli	شركة الاهرام للمقاولات

NO.	Company Name	Year of Establishment	Capital Size (In MLD)	Main Branch	Arabic Name
24	Almgareen	1999	1.0	Tripoli	شركة المقارين للمقاولات
25	Almoamar	1996	2.5	Tripoli	شركة المعمار للمقاولات
26	Almoden Alhadeetah	1995	4.2	Benghazi	شركة المدن الحديثة للمقاولات
27	Alnamah	1995	3.1	Tripoli	شركة النماء للمقاولات
28	Alneeroz	1997	2.0	Benghazi	شركة النيروز للمقاولات
29	Alnhdah	1995	1.8	Tripoli	شركة النهضة للمقاولات
30	Alnmareg	1998	1.0	Tripoli	شركة النمارق للمقاولات
31	Alnofileeah	2000	1.0	Benghazi	شركة النوفلية للمقاولات
32	Alragobah	1996	1.0	Tripoli	شركة الراقوبة للمقاولات
33	Alsadeem	1997	1.0	Tripoli	شركة السديم للمقاولات
34	Alsafah	1998	4.7	Benghazi	شركة الصفاء للمقاولات
35	Alshames	1996	1.0	Tripoli	شركة الشمس للمقاولات
36	Alṭaey	1995	1.0	Tripoli	شركة الطائي للمقاولات
37	Altasoker	1995	1.0	Tripoli	شركة التصخر للمقاولات
38	Alweefak	1999	1.0	Benghazi	شركة حدائق الوفاق للمقاولات
39	BuHrishemah	1998	1.0	Benghazi	شركة بوهريشيمة للمقاولات
40	Bzeemah	1995	1.0	Benghazi	شركة بزيمة للمقاولات
41	Dargees	1996	1.0	Tripoli	شركة دارغيس للمقاولات
42	Dofan	1996	1.0	Tripoli	شركة دوفان للمقاولات
43	Libyan	1998	3.0	Tripoli	شركة الليبية للمقاولات
44	Smaloos	1999	1.0	Benghazi	شركة سمالوس للمقاولات
45	Usberides	1997	1.8	Benghazi	شركة يوسبيريدس للمقاولات

Appendix No. 9: The Illustrative Forms of the Financial Statements

Libyan Construction Company

(A joint stock company)

Statement of Income

Periods ended December 31 (in Libyan Dinar)	**200X**	**200Y**
Revenue of the ordinary activity		
Costs and expenses		
Cost of sales and operating expenses		
Depreciation and amortisation		
Selling, administrative and general expenses		
Research and development expenses		
Interest and other finance costs		
Other expenses		
Income from continuing operations before income taxes and other items		
Income taxes		
Income from continuing operations before other items		
Other income items		
Income from continuing operations		
Profit (Loss) from extraordinary items		
Net profit or loss for the period		
Dividends per share		

Libyan Construction Company

(A joint stock company)

Balance Sheet

As at 31December (in Libyan Dinar)	**200X**	**200Y**
ASSETS		
Current Assets		
Cash		
Bank balance (breakdown into current & deposit in notes)		
Balances of Trade Receivables		
Balances of Others Receivables		
Inventories (breakdown & Market value in notes)		
Investment in marketable securities (Breakdown & Market value in notes)		
Total Current Assets		
Financial assets & investments (Market Values & Book Values)		
Fixed Assets (breakdown into items in notes)		
(-) Accumulated depreciation (breakdown into items in notes)		
Projects under construction (breakdown in notes)		
Intangible Assets		
Total assets		

As at 31December (in Libyan Dinar)	200X	200Y
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Liabilities to banks		
Liabilities to owners		
Liabilities to suppliers		
Liabilities to member of the board		
Tax liabilities		
Notes payable		
Dividends payable		
Instalments of long term loans payable during the year		
Accrued expenses		
Total Current Liabilities		
Long Term Liabilities		
Total value of loans &		
Other long term liabilities		
Debts by mortgage (breakdown into secured & unsecured)		
Total Long Term Liabilities		
Provisions		
Total Liabilities		
STOCKHOLDERS' EQUITY		
Issued capital		
Retained earnings		
Legal reserve		
Other reserves		
Total Stockholders' equity		
Total liabilities and Stockholders' equity		

Libyan Construction Company
(A joint stock company)
Statement of Cash Flows

Periods ended December 31 (in Libyan Dinar)	**200X**	**200Y**
FINANCING ACTIVITIES		
Cash from (used for) financing activities in continuing operations)		
Cash from (used for) financing activities in discontinued operations		
Cash from (used for) financing activities		
INVESTMENT ACTIVITIES		
Cash used for investment activities in continuing operations		
Cash from (used for) investment activities in discontinued operations		
Cash used for investment activities		
Increase (Decrease) in cash and time deposits		
Cash and time deposits - beginning of period		
Cash and time deposits - end of period in continuing operations		
Cash and time deposits - end of period in discontinued operations		
Cash and time deposits - end of period		

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