Journal of Economics, Business & Organization Research

Year:2021, Vol:3, Issue:1, pp. 91-116

Article Type: *Research*

Citation: *Masli A. M. & Elwalda A. (2021). Libya: Politics, Economics, Banking and Their Effects on Corporate Governance, Economics, Business and Organization Research, 3(1), pp. 91-116*

LIBYA: POLITICS, ECONOMICS, BANKING AND THEIR EFFECTS ON CORPORATE GOVERNANCE

Abdelhakim M. MASLI[1]
Abdulaziz ELWALDA[2]

Abstract

This study narratively examines the concept of corporate governance in Libya from a political, economic, banking perspective. As such, the study explores how to develop corporate governance in Libya and it presents an overview of the development of Libya's accounting and auditing profession and the measures taken to improve the Libyan banking sector, concentrating on the major role of the Code of Corporate Governance (2010) issued by the Central Bank of Libya. The study concludes that the concept of governance in Libya is still in the early stages of development, and it is inhibited by the weaknesses in board governance, government intervention, and the weak legal and regulatory environment. corporate governance practice in Libya is thus operating within an environment that is very different from that in developed countries. It is crucial, therefore, for developing countries to have their own corporate governance frameworks that consider political, economic cultural and social factors found in each country.

Keywords: *Corporate governance, central bank of Libya, Libyan banking sector, developing countries, Libya.*

[1] Faculty of Economics and Political Science, Misurata University, Libya, a.masli@eps.misuratau.edu.ly, ORCID: 0000-0002-2096-9201

[2] Faculty of Economics and Political Science, Misurata University, Libya, elwaldaa@eps.misuratau.edu.ly, ORCID: 0000-0002-4009-9346

Received: *10.02.2021* ***Accepted:*** *15.06.2021* ***Published Online:*** *15.06.2021*

1. INTRODUCTION

Ever since the financial scandals and crises of the 1980s and 1990s, corporate governance (CG) has been the subject of attention from researchers (Huse, 2007; Muniandy and Hillier, 2015). The report of Cadbury Committee (1992) regarding the financial aspects of CG was the first to raise awareness of the issues of CG, but this was followed by numerous other studies (e.g. Seward and Walsh, 1996; Sternberg, 1997; Williamson, 1988; Gillan and Starks, 2000; Goodwin and Seow, 2002). Following the corporate collapse in developed markets (2001-2002), many countries of the world have issued their own guidelines for good governance (Fichtner, 2010). Specifically, developed countries have responded with initiatives such as the Sarbanes Oxley Act (2002) and the UK Combined Code (FRC, 2003), which set out the mechanisms of CG to help boards of directors and shareholders improve the management of firms and prevent collapse, not only in the developed countries but also in the other countries given the major benefits good CG practice can bring. Accordingly, the merging market and developing countries also have established their own CG guidelines and codes (Mangena and Chamisa, 2008; Almomania et al., 2017) to protect the interests of shareholders and other stakeholders.

However, while these are the expectations that surround governance in developed countries, the lack of an institutional framework for their governance in developing countries (Boubakri et al., 2005) has led to that governance in these developing countries is working in a different environment. This is likely to have an impact on the effectiveness of CG mechanisms. The prior studies have mainly focused on developed countries (e.g. Cohen, et al., 2002; Brennan et al 2008; Turley and Zaman, 2014; Al-Okaily et al., 2020; Pemberton and Ng, 2021; Gurol and Lagasio, 2021), as well as, it is argued that CG practices may vary between developed and developing countries (Barghathi et al., 2017; Iswaissi and Falahati, 2017). This study, hence, aims to provide an overview of the development of CG in Libya, as a developing country, taking into account the political, economic, and banking backgrounds. Therefore, it used a narrative review of the literature, because it is the more comprehensive, critical and objective analysis of the current knowledge on a topic, and thus may motivate further studies in this aspect and help to develop CG in Libya.

This paper seeks to make an original contribution to knowledge by providing a deeper understanding of the development of CG in Libya, which may provide some helpful insights to board members, regulators, particularly the Central Bank of Libya (CBL), and policymakers to promote CG practices in Libya. Firstly, the study provides an overview that discusses the general historical, geographical, and political context of Libya, as this has profoundly influenced both the economy and the development of CG. Furthermore, we explore the emergence and current status of the country's accounting and auditing profession before explaining the role played by the Libyan Stock Market in fostering economic growth and the implementation of CG. Finally, the key legislative and regulatory steps that led up to the CBL's (2010a) CG Code before discussing how some of the main CG mechanisms (i.e. the board of directors, sub-committees, and disclosure practices) are treated within this legislation.

2. METHODOLOGY

As this study aims to provide an overview of the corporate governance in Libya from a political, economic, banking standpoint, a narrative review approach is believed to be appropriate (Hammersley, 2001). Narrative reviews describe and discuss a certain topic from a theoretical point of view, where a broad perspective on a topic can be introduced (Rother, 2007). Rother (2007) argue that narrative reviews have a very important role in keeping the process of knowledge going, as they deliver up-to-date knowledge about a particular topic. As the current study examines the knowledge of corporate governance from specific perspectives and aims to provide a broad narratively perspective on Libyan corporate governance, the narrative review approach is deemed to be suitable.

3. COUNTRY BACKGROUND

This section provides an insight into the general political and economic context in the country, as this has profoundly influenced the development of CG. The section then describes the emergence and current status of the country's accounting and auditing profession before explaining the role played by the Libyan Stock Market and the country's banking sector in fostering economic growth and the implementation of CG.

3.1. Political Overview

Libya is an Arab Muslim country in northern Africa, with the longest Mediterranean coastline of any country (more than 1,900 kilometres). It is well known as a gateway between Africa and western Europe, but it also plays a major role in linking eastern Arab countries to the Arab Maghreb countries (Younes, 2013). Extending between latitudes 19.45 and 32.94 N, and longitudes 9.38 and 25.14 E (Abdalmaula, 2014), Libya covers 1,759,540 square kilometres (679,362 sq. mi), making it the sixteenth largest nation in the world by size, with an area equivalent to one-half the size of Europe (Pratten and Mashat, 2009).

In the course of its long history, Libya has been home to many civilisations (Senauth, 2013). The Tadrart Akakus, famous for its rock, arches, gorges, paintings, and carvings, bears signs of human habitation from 12,000 BCE (UNESCO, 2017), and as early as 8000 BCE, Ancient Libya was inhabited by Neolithic hunter-gatherers (Falola et al., 2012). However, it was not until the final centuries of the pre-Christian era that the ancient Libyans made contact with other cultures around the Mediterranean, with the Phoenicians being the first to develop commercial links and exploit Libya's raw materials (Falola et al., 2012). The Phoenicians settled in many cities on the Libyan coast including Leptis Magna, Oea (Tripoli), and Sabratha, which was founded in the seventh century BCE. Seeing the Phoenicians' success in western Libya, the Greeks followed suit in the east of the country, establishing five cities from which they were able to fish and trade with great success (Martin, 2011).

By 517 BCE, the Berber-Phoenician empire was gaining influence all around the Mediterranean, much to the consternation of Rome (Falola et al., 2012), which responded by conquering northern Africa and (in 146 BCE) taking Libya into Roman control (Rahim, 2016). The newly acquired territory expanded Rome's empire, relieving pressures created by population growth, and strengthened its economy (Martin, 2011), becoming the breadbasket of Rome (Falola et al., 2012). The name Libya at that time referred to the African continent as a whole (Rahim, 2016); it was not until 296 AD, when Emperor Diocletian divided Cyrenaica into the provinces of Upper Libya and Lower Libya, that the term was used to refer to a political state called Libya for the first time in history (Rahim, 2016).

In 644, Islamic conquest reached Libya, bringing profound social, cultural, and ideological change. Under the command of Amr Ibn El-Asi, the Islamic army moved from Cyrenaica in the east to Tripolitania in the west, taking Tripoli from the Byzantines, while Uqba Ibn Nafi took Fezzan in the south before capturing Germa in 663 (Falola et al., 2012). Over the following centuries, Libya was ruled by a series of Islamic dynasties with varying levels of autonomy from the Umayyad, Abbasid, and Fatimid caliphates (Falola et al., 2012). The country flourished during the first part of the Islamic era; these early emirs took their custodianship of Libya seriously, repairing Roman irrigation systems, restoring order, and bringing a measure of prosperity to the region (Senauth, 2013). Small, mosque-based schools were established to teach Arabic and to give instruction in the Islamic religion. Over time, many of these mosques became Islamic universities (Mohamed, 2013).

Tripoli's strategic importance made it a target for successive invaders in the sixteenth century; it survived occupation by Spanish pirates in 1510 and by the Knights of St John in

1530 only to be besieged and conquered by the Ottomans in 1551 (Senauth, 2013). Ahmed Bey Karamanli, the Ottoman governor of Tripoli, established the Karamanli dynasty in 1711 (Vandewalle, 2012). In 1801, the war between Libya and the USA began that known as the Tripolitanian War, when the USA refused to pay Tripolitanians protection money for protecting its shipping from piracy in the Mediterranean, his descendant, Yusuf Karamanli, himself began attacking American ships (Falola et al., 2012; Senauth, 2013). Three US ships promptly arrived off the coast of Tripoli and blockaded the port (Falola et al., 2012), but the Tripolitanians responded by seizing the American frigate Philadelphia and capturing its entire crew (Vandewalle, 2012). In 1805, a peace treaty was finally signed and prisoners were exchanged when the USA agreed to pay a ransom of $60,000 (Falola et al., 2012).

Ottoman rule in Libya lasted until the Italian conquest in 1911 (Falola et al., 2012). In the early 1900s, Italy viewed itself as a reborn Roman Empire, destined to dominate the Mediterranean and take back some of its lost territories. It declared war on the Ottoman Empire in Libya (Falola et al., 2012), sending 145 warships and more than 34,000 troops to attack the coastal cities (Raza, 2012) and driving the smaller Ottoman forces back into the desert (Falola et al., 2012). Like other invaders before them, the Italians saw Libya as a land rich in resources (in this case, gold) that were waiting to be exploited (Senauth, 2013).

It is estimated that at least half a million Libyans perished during the conquest, either in battle or from disease, starvation, or thirst. A further 250,000 Libyans were forced into exile in neighbouring countries (Ahmida, 1994). Other European nations expressed shock, denouncing Italy's conduct as barbarous and uncivilised even by imperialist standards, but the Italian armies nevertheless continued their aggression against Libya for more than 20 years (Raza, 2012). Libya's suffering continued throughout the Second World War when it was fought over by the Axis and Allied armies from 1940 to 1943. The conflict ended with the surrender of the Axis powers and the end of Italian colonisation, but it left substantial damage, with large numbers of Libyans affected by the fighting (Hart, 2015; Van Genugten, 2016).

In December 1951, the modern state of Libya was finally created through the union of Tripolitania in the west, Cyrenaica in the east, and Fezzan in the south (Xypolia, 2016). The newly independent country, which followed a federal political system, was known as the United Kingdom of Libya (Younes et al., 2013) and was headed by King Idris Al-Sansui (Vandewalle, 2012). This incarnation did not last long, however; in 1963, the federal system was abandoned in favour of a unitary state (Vandewalle, 2012) and in 1969, a military coup, led by Colonel Muammar Gaddafi, overthrew King Idris and abolished the constitution

(Vandewalle, 2012).

Extreme poverty went unchecked in a country of vast mineral resources (Younes, 2013), while state institutions were hollowed out completely in a series of confusing and often contradictory reforms (Wright, 2012). The regime at that time spent most of Libya's oil profits on arms, supported terrorist groups, and ruthlessly pursued dissidents (Amaral, 2014). The country's political and economic structures were riddled with corruption. Their domination over the country's resources led to a wide gap between the wealthy and ordinary people (Shariha et al., 2014), while the ideology of socialism produced a weakened civil society and an autocratic government that was politically and socially regressive (Misa and Nia, 2016). Weak state institutions and the abolition of the constitution and many existing laws left the ground open for the introduction of new laws, policies, and plans that were often confusing, contradictory, and ill-considered. This had significant adverse effects on the national economy, including the banking sector.

In February 2011, mass anti-government protests sprang up in cities across Libya. Similar uprisings were occurring in Tunisia and Egypt (Senauth, 2013), but while the military in these countries supported the protestors, the Libyan military, were fervent supporters of the regime. Even so, they were unable to quell the revolution (Senauth, 2013). The regime's influence continues to be felt even after his overthrow, however; his prioritisation of tribal loyalties and dismantling of state institutions had important consequences for the process and outcome of the revolution (Niakooee, 2013), including helping create the disorder and unrest (Wright, 2012), which the Libyans still suffer from it to this day. Therefore, these obstacles hinder the efforts to achieve an effective governance system in Libya. Zagoub (2019) argues that the losses and consequences of war and political conflict are the biggest challenges facing future governments, and political and security instability is the biggest obstacle to the implementation of governance in Libya. This confirms the influence of the political factor on corporate governance, which leads to hinder the development and implementation of governance in the country.

3.2. Economic System

When the modern state of Libya was established in 1951, the country's economy was based on the limited productivity of a traditional agricultural sector (Younes et al., 2013). This all changed with the discovery of oil in 1959, which transformed Libya from a poor to an extremely wealthy country (Falola et al., 2012). However, rather than exploiting this opportunity for development and the chance to benefit from foreign investment (El. Hamoudi, 2017), the Gaddafi regime instead chose to conduct a series of political, economic, and ideological experiments that left Libya isolated (Vandewalle, 2012). Its relationship with western countries became increasingly strained, culminating in the imposition of economic sanctions by the US Government in the 1980s and by the UN Security Council in 1992. These strongly affected the Libyan economy (El. Hamoudi, 2017), but their impact was amplified even further by economic mismanagement and corruption (O'Sullivan, 2004). Driven by its socialist ideology (Buferna et al., 2005), the regime exercised tight control over the economy, holding back the development of the private sector and leaving Libya lagging behind its neighbours (Khan and Mezran, 2013). Economic policies were poorly developed and major decisions were taken without consideration of their long-term implications (Niblock, 2002). Despite the country's oil wealth, the regime did not build the infrastructure it needed to support the economy and domestic or foreign investment (Khan and Mezran, 2013). Not only did this exacerbate economic instability in Libya during that era, but it has also made it more difficult to rebuild the economy since the revolution.

Libya is one of the leading oil-producing countries in Africa and has the ninth-largest oil reserve in the world (around 46 billion barrels) (Etelawi et al., 2017). The economy depends mainly on the oil sector, which accounts for 91% of total government revenue (Ali and Harvie, 2013). Output dropped significantly during the 1980s to about one million barrels (from a peak of 3.3 million barrels in 1970) due to the international sanctions and the regime's failed economic policies (Ali and Harvie, 2013; Etelawi et al., 2017), but when international sanctions ended in 2004, international companies began investing in Libya, particularly in the oil sector (Etelawi et al., 2017), and the country was able to begin its reintegration into the international economy and to capitalise once again on its abundant oil and gas riches (Vandewalle, 2012). Libya's oil production continues to exert a significant influence on the global oil price because of its high quality and proximity to Europe (Ali and Harvie, 2013).

The international investment in the oil sector would not have been possible without the Libyan Government's decision to liberalise the country's economy (El. Hamoudi, 2017). This process began in the early 2000s with the first of a series of reforms designed to encourage privatisation and foreign investment not just in the oil sector but across the economy (Masoud, 2014). After the revolution of 2011, the economy began to recover and oil production came back faster than expected, but by 2013 it had slipped back to pre-revolution levels (Khan and Mezran, 2013). Khan and Mezren argue that this is mainly due to underlying structural problems dating back to the Gaddafi years, including a continuing lack of interest in developing the private sector, chronically high unemployment (13.5% in 2010), an underdeveloped banking sector, and a large and highly inefficient subsidy system for many basic food products and fuel that means the Government spends more on wages and subsidies than on development. Accordingly, all these obstacles have a significant effect on Libyan firms to implement good corporate governance practices.

3.3. The Accounting and Auditing Profession

In the years following independence, western oil companies, especially those from the UK and the USA, introduced their accounting practices – and their attitudes to accounting – into the Libyan environment. These companies positively affected the development of accounting first in Libyan oil companies and then in other companies (Masoud, 2016). The early practice was also shaped by Libyan students who had studied abroad, particularly in the USA and the UK. This period saw the enactment of the Libyan Commercial Law (1953) requiring companies to prepare an annual report including an income statement and balance sheet (Masoud, 2016). The law served as an acknowledgement of the importance of the accounting and auditing function; accordingly, as oil exports increased during the 1960s, the Government took steps to improve the accounting education being offered by Libyan universities (El-Firjani et al., 2014).

The next major step in the development of the accounting profession came in 1973, when the Government issued Law No. 116. This was the first legislation to focus specifically on the accounting and auditing profession (Laga, 2013). It sought to raise standards by setting out the responsibilities of and a code of behaviour for accountants and auditors, and by requiring accountants to be registered. Finally, it laid the groundwork for the creation of the Libyan Accountants and Auditors Association (LAAA) (El-Firjani et al., 2014).

Despite this and other attempts at regulation, however, and notwithstanding the existence of the LAAA (Masoud, 2016), the accounting profession in Libya has not yet achieved its central objective of developing accounting practice (El-Firjani et al., 2014). For example, auditing practice remains undeveloped, making it difficult to report corporate misconduct (Zakari and Menacere, 2012). The Government has sought to address this weakness, for example by issuing the Banking Law in 2005 and requiring all firms with a capital of over one million Libyan Dinars to be listed on the Libyan Stock Market, where they are expected to follow IASs (El-Firjani et al., 2014). However, such progress as has been made is largely down to the Libyan Stock Market and CBL, which have sought to foster good accounting practice through their issuance of CG rules and guidelines (Larbsh, 2010). At the moment, the accounting and auditing profession itself does not enjoy high status, mostly due to the perceived weakness of the LAAA (Masoud, 2017). This state of affairs is unlikely to change without a thorough overhaul of the profession's regulatory systems to bring them into line with those in developed countries.

3.4. The Libyan Stock Market (LSM)

Oyelami and Ale (2013) defined financial markets as the places in which individuals and companies trade financial securities and require resources to fund their activities. In other words, financial markets gather resources from those who have them and direct them back to those who can benefit from them (Ansari, 2012). In an effort by the Libyan government to boost the economy, encourage investment and fight poverty, the Libyan Stock Market was established in 2001 with the issuance of Act No. 21/2001 (Masoud, 2014). Nonetheless, it was not officially open until 2006 (Aljbiri, 2013). By Act No. 21/2001, all companies were required to register in the stock market (El-Firjani et al., 2014).

In a collaboration with the London Stock Exchange, the Libyan Stock Market had made training contract, by which trainees from the Libyan Stock Market can be trained in the London Stock Exchange (Saidane, 2010). Joining the International Organisation for the Protection of the Investor the Executive Committee of the deposit of Africa and the Middle East, the Libyan Stock Market has become internationally active (Edweib et al., 2013). Edweib et al., (2013) argue that this international activity had an important valuable reflection on encouraging investment, improving finance availability, and ensuring the disclosure and transparency.

The Libyan Stock Market issued CG code in 2007, which covers the board of directors' responsibilities, the establishment of the remuneration committee, the establishment of the audit committee, establishment of the nomination committee, establishment of the watchdog committee, and disclosure and transparency activities. The code requires that all listed companies publish their annual reports. Information about investment income proposed and paid dividends, loans, compensation, remuneration and turnover should be included in the annual reports (Masoud, 2014). Moreover, the responsibilities of the sub-committees and members 'committees need to be encompassed in an annual financial statement (Libyan Stock Market, 2007). Such procedures were found to satisfy shareholders (Ishmela, 2010), and to enhance economic growth (Edweib et al. 2013).

3.5. The Libyan Banking Sector

The banking sector is one of the most important sectors of the Libyan economy (Alrshah, 2015), which is one of the major financiers for most projects and institutions, because of the adoption of public sector enterprises in the implementation of development plans (Shernanna, 2012). As a result, it was necessary to take a range of appropriate measures to improve and repair the banking sector to bring it in line with the new policies in order to shift the burden on the state, and also so that the sector can contribute effectively to being able to provide a better environment for its development (CBL, 2010b).

Based on the above, the Central Bank of Libya (CBL) carried out a set of actions during the period 2002-2010, such as the issuance of a CG code, restructuring commercial banks, and transferring some of the ownership of public sector banks to the private sector. In addition, new private banks were established and foreign investors and foreign banks were allowed to participate in the Libyan banking sector, which should help to improve the effectiveness of this sector (CBL, 2010b).

3.5.1. Central Bank of Libya (CBL)

In 1956, the CBL was established as a supreme monetary institution in Libya. The major objectives of the CBL are to preserve monetary stability in Libya and to ensure the continual growth of the economic system based on the state's general economic policy (CBL, 2008). The law provides for the CBL's independence and confers upon it the authority to oversee the Libyan banking sector to ensure the integrity of all banks financial position and protect the rights of depositors and clients (CBL, 2008). Furthermore, its job is to closely monitor all banks in this sector (El-Firjani et al., 2014). In the past two decades, the CBL has taken significant steps toward a to attract greater foreign investment by opening branches or agencies for foreign banks in Libya (Hawashe, 2016).

3.5.2. Commercial Banks

Based on the role, size, the range of services provided to customers and geographical spread, commercial banks are among the most important financial institutions in Libya (Hawashe, 2016). Realizing that the importance of privatization privatisation programme was crucial to encourage investment and broaden the property base in Libya, the CBL has undertaken a series of reforms that included the establishment of private commercial banks, as well as the opening of branches of some foreign banks (Hawashe, 2016). The sector thus now includes twenty banks, which are are either owned by the state, the private sector, or joint-owned by some combination of the state, domestic and foreign investors.

3.5.3. The Islamic Banking System in Libya

Islamic Law (Sharia) is derived from Quran and Sunnah (Javaid and ul Hassan, 2013), and thus the primary objective of Sharia is to provide safety and justice to people for their belief, life, wealth and prosperity equally (El-Halaby and Hussainey, 2015). Although Islamic finance system focuses its products on the prohibitions of interest and trading under uncertainty (Abdo and Wakkas, 2011), it has become important in the international economy due to a number of reasons, including the need of Muslims to obtain financial products and services which are in line with their religious beliefs (Grais and Pellegrini, 2006). Currently, more than 600 Islamic bank institutions exist, and more than 700 Islamic investment funds with over 2 trillion dollars in assets, and many non-Muslims use products provided by Islamic financial institutions and Islamic windows in conventional banks (Masiukiewicz, 2014).

Islamic banking in Libya began when the Libyan Banking Law No. (1) (2005) allowed for the creation of some of the Islamic banking services and products as a category of licensed activities (CBL, 2005). Prior to 2011, however, there was little attention and support from the Libyan government towards Islamic banking. Following the 2011 revolution, the National Transitional Council issued Law No. 46 of 2012, that the 2005 Banking Law was amended, which included a detailed chapter on Islamic banking and allowed the establishment of Islamic banks (Baej and Worthington 2014).

In 2013, General National Congress in Libya issued a law (No, 1), which has prohibited all dealings in interest (Riba) (Stela and Abdulsalam, 2016) with strong support from most segments of society for an Islamic banking system in the country (Abdulsaleh, 2017). This led to the start of the process of transforming conventional banking system into Islamic banking and steps have been taken in this direction by opening branches and windows to provide Islamic banking and Sharia Committees have been established (Elkrghli and Yahya, 2018). Despite that, this law has not been yet completely implemented, but has been only partially applied (Zway, 2017). Elkrghli and Yahya (2018) add that it was noted that the Libyan banks are still at the early stages and have not been able to make a full transition to Islamic Banking in its true sense yet. The reasons for this are due to several obstacles, that banks have not been able to overcome in five years and have not been resolved or found solutions to them, such as poor experience and inefficiency in the field of Islamic banking, the absence of Islamic Financial Market, and a lack of staff training, as well as the impact of the current political and economic situation on the progress of the transformation program (Abdulsaleh, 2017; Zway, 2017; Elkrghli and Yahya, 2018).

On the other hand, Baej and Worthington (2014) argue that even though the presences of these obstacles and challenges, some factors help the new Islamic banking system, such as that this system is already attracting the attention of the CBL, regulators, banks, academic and practitioners and society as a whole, which has led the attention of the Libyan authorities in implementing Islamic banking. The fact the banking sector in Libya has taken many actions to transform into an Islamic system (Elkrghli and Yahya, 2018), and have provided Islamic banking services by Islamic branches and windows all over the country, where the majority of financing products are limited to Murabaha and Musharaka (Abdulsaleh, 2017). Although it is too early to assess the Islamic finance system in the Libyan banks, so far no information was given from the CBL on the extent of Sharia application in these banks and how this system will be implemented in the future. Nevertheless, Masoud (2014) expects that Islamic finance will play a prominent role in the long-term economic growth of Libya by increasing the gross domestic product (GDP). Supporters of Islamic banking argue that an effective Islamic banking system will attract both the domestic and foreign investment that is crucial to Libya's economy (Eldlimi et al., 2013). As a result, it may present the opportunity to obtain the necessary finance from investors by offering potential investors new investment opportunities and thereby restore the desired levels of liquidity.

According to this section, it should be argued that the Libyan banking sector faces many obstacles and challenges to adopt good corporate governance practices. Khan and Mezren (2013) argue that although banking system reforms were introduced to upgrade banks, the sector was remarkably underdeveloped given the country's level of wealth and GDP, and access to financial services remained limited.

4. DEVELOPMENT OF CORPORATE GOVERNANCE IN LIBYA

Preliminary from the Libyan independence in 1951, the CG development in Libya has gone through several stages. The starting point was the issuance of the Libyan Commercial Law in 1953, which had covered a number of the fundamental principles of CG, including board structure and responsibilities and shareholders' rights. Addressing several shortcomings in the Libyan Commercial 1953, the Libyan government had revised the law in 2010; issuing a new revised Commercial Code (No. 23/2010). Because of not issuing the executive regulations, the revised law was not made mandatory.

1973 has witnessed the second stage of the development of CG, in which Law No. 116 was issued. Law No. 116 was concerned with the accounting organisations profession in Libya (Laga, 2013). According to Ritchie and Khorwatt, (2007) Law No. 116 has brought the accounting profession into the light spot, as it has set new standards, setting out the accountants and auditors' responsibilities, a code of behaviour, and demanding accountants to be officially registered. More importantly, it has led to the laid of the Libyan Association of Accountants and Auditors (El-Firjani et al., 2014).

The third stage of CG development was the implementation of corrective measures. During the first decade of the 21st century, CBL implemented several procedures that intended to take the banking sector a step further to be in a line with the international system. These procedures embraced privatization of public banks, new restructuration on the commercial banks, and issuance of a (voluntary) CG code in 2005. Furthermore, foreign shareholders and foreign banks were permitted to contribute to the Libyan banking sector (CBL, 2010b). Even though the importance of the rules on CG for commercial banks working in Libya was provided in the 2005 CG code, these guidelines were neither lawfully nor obligatory (CBL, 2005).

In 2006, the Libyan Stock Market was officially introduced. Shortly thereafter, Libyan Stock Market issued the second CG Code which was absorbed at listed companies; explaining the board of directors' responsibilities, the sub-committees establishing guidelines, for example, the audit committee, remuneration committee, and disclosure and transparency. The code had again failed to be binding, with the exception of the regulations regarding disclosure. The year 2010 witnessed two important events regarding the development of CG in Libya. These are, CG Code issued by the CBL was made compulsory, and the Libyan Parliament issued the Libyan Stock Market Authority (LSMA) Law No. 11. The LSMA Law was mainly concerned with governing the regulation of the stock market; ensuring that all listed companies' transactions take place under conditions of disclosure and transparency. Presenting an important step forward, The LSMA Law, in Article 17, makes explicit the protection of investor rights. Furthermore, the LSMA Law specifies that a board of five members, who should be appointed by the Libyan Prime Minister, manage the Libyan Stock Market Authority.

The CG code issued by CB consists of six sections. The first and second sections are concerned with CG's key codes. As well as, they address the rights of the shareholders and ensure that their rights are protected, including how decisions are taken in the shareholders' general assembly. Appointing board members, appointing the senior management, their duties towards shareholders, depositors and other debtholders, sub-committees of the board of directors' duties and responsibilities were discussed in sections three and four of the code. These sections also define clearly the relationship between the board of directors and senior management. Finally, the fifth and sixth sections deal with disclosure practices of CG (CBL, 2010a).

The code specifies that between five and seven members need to be appointed as the boards of directors in commercial banks, two of whom at least should be independent directors (CBL, 2010a). Nonetheless, according to Article 530 of the Libyan Commercial Law (1953), the company's memorandum can set the upper and the lower number of board of directors. Therefore, the general assembly can decide how many directors within these limits. Furthermore, the Libyan Commercial Law (1953), allows the general assembly chooses not to appoint the chairman. In this case, Libyan Commercial Law (1953) gives the right to the board members to choose the board chairman by themselves by selecting a candidate from among the board (Libyan Commercial Law, 1953).

The CG 2010 code explains that the board is the authorized body that can set strategies, supervise the management, and ensure that the CG code is properly implemented. It also claims that the board of directors has the final say in the bank's financial activities, where it is accountable to the CBL and the shareholders (CBL, 2010a). An audit committee; risk management committee, appointment, and remuneration committee, and a corporate governance committee are recommended by the 2010 code (CBL, 2010a).

5. DISCUSSION

With this narrative review, the results of the study show that the political factor has an impact on corporate governance, which leads to hinder the development and implementation of governance in the country. As political and security instability constitutes a major obstacle to the implementation of governance in Libya, which is consistent with a number of studies (e.g. Ma and Yu, 2007; Mwangangi, 2015; Jamil, 2017; Afolabi, 2106; Zagoub, 2019; Mijena, 2020). They also indicate that the economic factor has an impact on effective corporate governance practice in Libyan firms, which is in agreement with the studies of Afolabi (2016) and Zagoub (2019). As a result, Afolabi (2016) asserts that corporate governance guideline should be tailor towards the political and economic environment in the countries targeted for the study. Regarding the Libyan banking sector, a number of the studies found that the sector faces several critical issues that hinder the success of the implementation of CG in this sector such as, lack of human resources, the difficulty of applying Islamic law compliant products in the traditional banking system, weak of regulations and legislation, and the technology used in banking services does not meet the demand of customers (see e.g. Kribat et al., 2013; Hossen, 2014, Khan and Mezren, 2013; McLaughlin et al., 2017; Abdelrahim, 2020). Elsakit (2017) argues that the dominance of the public sector for decades in all economic sectors in Libya has led to its subsequent negative impact on the banking sector in terms of inefficiency in banking performance.

With regard to CG practices in Libya, as CG practices vary from country to country as a result of social, economic, legal, and political factors (Iswaissi and Falahati, 2017), and the need to develop CG systems for developing countries that countries, taking into account their cultural, political, and technological conditions (Mulili and Wong, 2011), an in-depth study of these factors was essential to examine their effect on CG in the Libyan context. Libya is still at an early stage of applying CG mechanisms in the Libyan banking sector, while the development of CG in these companies is hindered by unprofessional boards of directors and underperforming directors. As a result, regulation is still not sufficient and practice is generally weak. Masli (2018) found that the legal, regulatory and institutional environment underpinning Libya's CG framework is not adequate. Also, there a lack of training for managers in CG models, and the lack of accounting standards and legal requirements lead to low levels of disclosure (Larbsh, 2010; Iswaissi and Falahati, 2017). Moreover, most Libyan companies are state-owned and have a high ownership concentration (Abdou, 2015), and therefore, there are concerns about the level of government intervention, especially from the CBL (Masli, 2018), which extends to the appointment of board members and even board chairmen. Shalba (2016) found that board members in most firms in Libya are often selected because of personal contacts and favouritism rather than their abilities or expertise. This indicates that CG practice in Libya is working in a different environment from that in other countries.

Despite all these legal and regulatory efforts, however, the legal and institutional environment underpinning Libya's CG framework is not adequate (Masli, 2018), and there is still a widespread lack of knowledge about CG (Magrus, 2012), with the existence of weaknesses in board governance (Masli, 2018). Quite many researchers have pointed out that CG regulation is still not fully adequate in most firms in Libya (e.g. Me.g. Larbsh, 2010; Magrus, 2012; Faraj and El-Firjani, 2014; Abdou, 2015; Elshahoubi, 2019), and awareness of CG issues within the Libyan environment is currently inadequate (Elshahoubi, 2019). This has had adverse consequences for the country, weakening the banking system, reducing the attractiveness of Libya to foreign investors, and exacerbating the fragility of the Libyan economy (Larbsh, 2010; Magrus, 2012; Alrshah and Fadzil, 2013). As a result, Masli et al., (2019) suggest that greater attention needs to be paid to CG within the legal and regulatory environment in Libya, which may especially help regulators and board members trying to enhance the effectiveness of CG in the Libyan context.

6. CONCLUSIONS

The aim of this study is to provide a narrative review of the literature on CG in Libya, and some factors that influence it. Therefore, this study, despite its exploratory nature, offers some insight into the Libyan politics, economy and their effect on the CG. The paper begins with a brief overview of Libya’s geographical, political, and economic context, showing how the country’s natural riches and strategic location have made it a tempting target for a succession of foreign occupiers over the centuries. Also, it presents an overview of the development of the accounting and auditing profession in Libya, indicating that it does not currently seem to have the professional standing to push for development. In the last half-century, however, it is the vicissitudes of Libya’s internal politics that have had a major negative impact on the economy, both in general and in the banking and accounting environment in particular.

The CBL has responded to these challenges by implementing a series of reforms over the last two decades to develop the Libyan banking sector and increase its competitiveness in the global marketplace. Its efforts have focused on this issue to encourage good governance within this sector. The paper discusses the progress of these efforts, shedding light, in particular, on the major role of the CG Code (CBL, 2010a) issued by the CBL, which develops guidelines for the formation of boards of directors and board committees and disclosure practice in Libya's banking sector. It also discusses the central role of the Libyan stock market in regulating listed companies and in implementing and improving their governance practices.

Generally, the study shows that CG in Libya is still in the early stages of development. The concept of governance in Libya is still in the early stages of development, and it is inhibited by the weaknesses in board governance, government intervention, and the weak legal and regulatory environment. The consensus was almost as strong that awareness of CG among stakeholders in the sector is low. Moreover, there are concerns from government intervention in CG due to the political structure and the controlling shareholder status of the government in many state-owned firms. Therefore, CG practice in Libya is working within an environment that is very different from that in developed countries.

In broad terms, the findings of this study suggest that greater attention needs to be paid to CG within the legal and regulatory environment in Libya; most importantly, the Libyan CG code (CBL, 2010a) should be revised to place greater emphasis on the role of the board and its committees in the Libyan banks, with taking the political, economic and cultural factors into consideration and paying attention to the Libyan banking sector, which constitute important steps to achieve an effective governance system in this banking sector. These findings contribute to the literature by offering a different perspective and new evidence from a country with its own unique business environment, culture, religion and regulatory framework. They also add to our understanding the role of boards of directors and how CG codes operate outside developed countries, but more narrowly, they have specific implications for the board and regulators (particularly the CBL) in the Libyan banking sector, who are attempting to enhance the effectiveness of these committees.

7. LIMITATIONS AND FUTURE STUDIES

The present study has several limitations that can be addressed in future studies. Firstly, this study has been exploratory in nature; being one of the first attempts to explore Libyan geography, history, politics, and their effect on both the economy and CG. Future research may take a further step using interviews, for example, to enhance our understanding of the impact of the environment on CG. Moreover, this study was concerned with the hard institutional factors (i.e. shape the economy, laws), and did not take into account the soft institutional factors related to CG. It is, hence, future studies can reflect factors such as values, social norms, traditions, and the networks of interpersonal relations. Finally, future studies may consider comparing Libyan CG with another CG from a different context.

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