

## **Influences on the Development of the Libyan Banking Sector**

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**Abstract:** *The purpose of this paper is to increase understanding of the Libyan banking sector by reviewing its historical development, and highlighting the events that significantly affected this development. The paper serves as a starting point in understanding the behaviour of this sector regarding financial and non-financial issues. It argues that this understanding cannot be achieved without considering the background of Libyan banks and the changes that occurred within the banking sector and its culture. The paper also gives a historical background to researchers who are interested in studying issues related to Libyan banks. The paper is predominantly based on a review of relevant literature that discusses issues relating to the Libyan banking sector. Historiography approach is implemented to gather information that describes this sector in a historical, political, and economic context. The review suggests that the Libyan banking sector was negatively affected, to a large extent, by two factors, namely: implementing the political, economic and social ideology of the previous political regime; and the intervention of political will, which was influenced by political pressures from the international community. Therefore, understanding policies of Libyan banks and their attitude towards issues requires a sound knowledge of the history of these banks and the environment in which they have been operating. The paper highlights the importance of understanding the political, economic and social contexts in which banks operate in understanding and predicting the behaviour of these banks.*

**Keywords:** *Libyan banking sector, Historical development of Libyan banks, Social and environmental disclosure*

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### **I. Introduction**

Banks play an important role in the economic development and success of a nation. The association between economic growth and financial intermediation has long been a focus of interest to academics, economists and policymakers. In less developed countries, the role of the banking system seems even more obvious as banks are the dominant players in financial sectors and are the key source of finance for economic activities (Kumati, 2008). Researchers (e.g. Habara, 2009; Husien, 2007) believe that this particularly applies to Libya. Husein (2007), while subscribing to the view that the Libyan banking sector is similar to its peers in other developing countries, argues that it is "...more crucial to the economy because it represents the backbone of the Libyan financial system, being the only source of finance and the only financial institution that can provide loans and credit in Libya" (Husien 2007, p. 107).

However, banks' success in playing their role and accomplishing the desired goals can sometimes be hampered by the surrounding environment. Their ability to exercise banking activities and participate in economic life is determined, to some extent, by external factors beyond their control. These include legal, political, economic and social systems that affect the existence of economic, non-economic institutions and citizens alike. This should be kept in mind when studying the banking performance. Therefore, it can be argued that the first step in investigating the low performance of banks is determining which factors have the greatest impact on performance. This should help avoid misleading conclusions and, therefore, facilitate the provision of realistic recommendations.

Many Libyan studies (e.g. Alwaddan, 2005; Mashat, 2005; Husien, 2007; Kumati, 2008; Elmogla, 2009; Hanibich, 2009) demonstrated the low performance of Libyan banks in financial and non-financial activities. This paper provides the first step in understanding the reasons behind this low performance by providing an overview of the development of the Libyan banking sector since its establishment until the end of 2010 and highlighting the factors that have had a major impact on the performance of the Libyan banking sector.

### **Structure of Libyan banking system**

The Libyan banking sector consists of the Central Bank of Libya, commercial banks, and specialized banks. Central banks have a vital role to play. The central bank is the main tool in implementing the financial and monetary policies of the state or country. Thus, it sets roles and guidelines for banks to ensure that banking activities are serving both bank goals and state interests at large. In Libya, the responsibilities and tasks of the Central Bank are determined in the fifth article of the Banking Law No. 1 of 2005. Commercial banks, on the

other hand, are considered the most important financial institutions in Libya (Habara, 2009). There are two main types: private commercial banks and state-owned commercial banks. The aim of these banks is to accomplish commercial goals. Private banks appear to have more freedom when concerned with profitability. By the end of 2010 there were 15 commercial banks operating in Libya. The second section of Article 65 in the Law No (1) 2005 stipulates the activities of these banks. In addition, a number of specialized banks have also been established exclusively to support and finance specific sectors such as agriculture, housing and industrial activities, and for other specific purposes. At the end of 2010, four specialized banks were in operation.

### **Historical development of Libyan banks**

The history of banking activities in Libya can be traced back to 1868. Since then, the banking industry in Libya has experienced many fundamental changes (Alwaddan, 2005; Husien, 2007; Kumati, 2008). In the following sections, the development of the banking sector in Libya will be broken into several stages, based on significant events that have impacted on its development.

#### **The First Stage: Prior to 1952**

During this period no national government existed. Libya has suffered through its long history from a number of periods of foreign domination, including rule by the Greeks, the Romans, the Phoenicians, the Ottomans, the Italians, the British and the French. This historical stage can be divided into three periods, according to the type of colonization or administration that ruled the country at the time.

##### ***The period 1835–1911***

Following the collapse of Karmanli family rule in 1835, Libya fell under the control of the Ottoman Empire for a second time. This continued until 1911. During this time and subsequently, including the period of Italian occupation, the Libyan economy depended on animal breeding, handcrafts and agriculture, with a special focus on agriculture and trade (Alwaddan, 2005). Therefore, attention turned to financing the agricultural sector with the first agricultural bank in Libya being founded in 1868 in Benghazi, followed by another in Tripoli in 1901. With the increasing importance of an economic system depending mainly on agriculture, other branches of Ottoman banks were subsequently opened in Tripoli and Benghazi in 1906 and 1911, respectively, in addition to branches in other cities in Libya.

The role of the Ottoman Agriculture Bank, through its branches, was limited and did not impact significantly on the Libyan economy (Aspaq, 2011). Thus, there was room for other foreign banks—particularly Italian banks. In 1907, the Roma Bank (Banco Di Roma) opened a branch in Tripoli, and later opened another two branches in Benghazi and Derna (Alwaddan, 2005), as well as several commercial agencies in other Libyan cities (Gabgub, 2009). The bank provided loans for activities such as agriculture, light industry, shipping and mineral projects. This focus by Italian banks on the Libyan market was not solely for commercial reasons. The main goal of the Italian banking activities in Libya was preparation for the Italian occupation of Libya (Alwaddan, 2005; Aspaq, 2011; Gabgub, 2009; Husien, 2007). Wright (1982, cited in Alwaddan, 2005, p. 14) stated, “Italian diplomacy spent 30 years, on and off, preparing international opinion for the eventual occupation of Turkey’s remaining north African possessions”. Italian banks played a key role on the ground towards achieving this goal by collecting colonial information, purchasing lands, and financing Italian immigrants to help them settle in Libya (Alwaddan, 2005; Husien, 2007). These efforts largely succeeded: Italy occupied Libya in 1911, and the activities of banks demonstrated that they could be used to serve political ends, and be an effective tool in achieving non-commercial aims.

##### ***The period 1911–1942***

Italian colonialism in Libya began in October 1911 and continued until Italy’s defeat in the World War II by the Allies in 1942. During this period, other Italian banks (namely the Bank of Napoli, the Bank of Italy and the Bank of Sicily) also opened branches in Tripoli in 1912 and 1913 (Aspaq, 2011; Husien, 2007). In addition, the Savings Tripoli Fund, Saving Burka Fund and Tripoli Bank were established as local banks (Aspaq, 2011) and later, in 1935, the first two banks merged as the Libyan Savings Fund. The monetary system and the banking sector of Libya were integrated into the Italian system and became an essential part of it (Alwaddan, 2005; Husien, 2007).

The Libyan economy continued its reliance on agriculture, in addition to handcrafts and animal breeding (Joffé & McLachlan, 1982, Cited in Alwaddan, 2005, p. 11). The economic conditions experienced little change when the Italians focused on various infrastructure projects such as roads, ports and public buildings in order to support the agricultural sector (Alwaddan, 2005).

##### ***The period 1942–1951***

Following the defeat of Italy in World War II, Tripoli and Burka came under the control of a British military administration, while French military administration controlled the third part of the country, namely Fezzan. Italian banks closed and, as a result, the monetary and banking sector of Libya broke down (Alwaddan, 2005; Wright, 1982). The Libyan economy, which continued to rely on the agricultural sector, encountered a

severe recession, the deficit in trade balance increased and the government reached a point where it became unable to cover its administration costs (Alwaddan, 2005). Unstable economic conditions continued during this period and Libya became one of the poorest countries in the world (Habara, 2009); thus, international aid was vital to the country and its people.

In UNESCO's Report of the Mission to Libya (which was prepared in 1952 and considered the economic and social development of Libya), Higgins (1952, p. 11) stated that "the Libyan national income per capita is only 30 to 35 dollars per year. Moreover, even the present abysmally low average standard of living is possible only because of foreign aid". Higgins described the condition of the Libyan economy by stating:

We need not to construct abstract models of an economy where the bulk of people live on a subsistence level, where per capita income is well below \$50 per year, where there are no sources of power and no mineral resources, where agricultural expansion is severely limited by climatic conditions, where capital formation is zero or less, where there is no skilled labour supply and no indigenous entrepreneurship....If Libya can be brought to a stage of sustained growth, there is hope for every country in the world (Higgins, 1968, p. 819).

A United Nations subcommittee prepared a list of urgent services required and the banking system was considered one of the most urgent needs for Libya in order to change the economic conditions (Alwaddan, 2005). However, British organizations dominated financial activities. The British military administration controlled Libyan financial and monetary activities through branches of Barclays Bank established in Tripoli and Benghazi in 1943 (Gabgub, 2009). Barclays Bank, in addition to providing its banking services, took over the responsibility of issuing currency in Libya (Gabgub, 2009), and was the only bank operating in the Libyan market until the beginning of 1951 (Baej, 2013). Based on Regulation No. 1211, which was issued in 1950, the Italian banks (Bank of Rome, Bank of Napoli and Bank of Sicily) resumed their activities in Libya in 1951 (Hanibich, 2009).

What remained absent from banking activities were Libyan banks. Consequently, Libyan individuals lacked banking skills, related experience and education (Kumati, 2008). Politically, on 24 December 1951, Libya gained independence as the United Kingdom of Libya. An international commission was then constituted and given some responsibilities of a central bank (Kumati, 2008).

### **The Second Stage: 1952–1962**

After the independence of Libya, the weak condition of the economy continued, and Libya became more dependent on international aid and revenue received from renting Libyan land for British and American military bases (Alwaddan, 2005). The discovery of oil in 1958 changed dramatically Libya's economy. The oil sector became the dominant sector in the economy, and Libya turned from one of the poorest countries in the world to one of the richest nations in its region (Alwaddan, 2005). It can be said that Libya, after joining the Organization of Petroleum Exporting Countries (OPEC) in June 1961, started to move from its reliance on international aid to relying largely on international markets.

The year 1952 witnessed the establishment in Libya of two banks; namely, the Arab Bank and the British Bank of the Middle East. Licenses were also granted to the Bank of Egypt, the Tunisian–Algerian Real Estate Bank (a French company), the Bank of America and the Morgan Guaranty Bank (Hanibich, 2009). The Libyan Currency Committee was established in February 1952 and, in 1955, law No. 30 was issued to establish the National Bank of Libya, which commenced its activities later in April 1956 (Hanibich, 2009). The National Bank of Libya encountered some obstacles resulting from its limited powers. The law allowed it to practise normal banking activities, but did not give it the authority to supervise, control or organize the activities of the commercial banks (which were all foreign banks), or to collect banking information needed for setting banking and monetary policies (Hanibich, 2009). Thus, its role was consultative more than executive (Aspaq, 2011). Banking legislation No 4, issued on 20 November 1958, gave more authority to the bank, but not to the extent that it could control and direct the activities of foreign banks. These banks continued focusing exclusively on achieving quick profits by financing commercial activities, and ignoring other activities such as industrial and agricultural (Hanibich, 2009). By the beginning of 1959, the National Bank of Libya started promoting the idea of "Libyanising" the banking sector but this did not receive a positive response from foreign banks (Hanibich, 2009). Based on a law issued on 19 July 1955, the National Agriculture Bank was the first Libyan specialized bank, founded to finance and support the agricultural sector and its related activities (Hanibich, 2009).

### **The Third Stage: 1963–1969**

Gabgub (2009) considers this period as one of the most important phases in both the Libyan economy and Libyan banking system. Two important events distinguish this period: the commencement of national economic and social development plans, and the establishment of Libyan commercial banks.

Economically, this period witnessed a dramatic increase in Libyan revenues from US\$86.698 million in 1962 to US\$1205.904 million in 1969, because of the increasing contribution of oil revenue to the Libyan economy, from just 7.6% in 1962 to 77.4% in 1969 (Alwaddan, 2005). Thus, the first national economic and social development plan developed, covering the years from 1963 to 1968 (extended later to include 1969), and focused on improving living standards and public services, such as transportation and electricity (Alwaddan, 2005). A considerable proportion of expenditure was directed to housing, transport, communication, agriculture and electricity, and this in turn led to a noticeable improvement in living standards and per capita income (Alwaddan, 2005). There is no doubt that there needed to be a major role for banks in such economic and social development plans. However, there was a problem in the banking sector at that time.

Alwaddan (2005) and Husien (2007) pointed out that the Libyan National Bank was unable to force foreign banks to comply with the national interest policies that the bank was designed to achieve and, as a result, Banking Law No. 4 was issued in 1963. Hanibich (2009) views this law as the major influence on the subsequent participation of Libyan banks in banking activities. Until 1963, the banking sector in Libya included only the National Bank of Libya and 10 foreign banks (Husien, 2007). The law changed the name of the National Bank of Libya to the Bank of Libya, and gave it extensive authority (e.g., the authority to inspect the operating banks and impose penalties). This was a significant step towards establishing a genuine central bank (Husien, 2007). The bank also adopted a policy of Libyanisation in the banking sector; it refused to give permission to foreign banks to open new branches, and made the Libyanisation of foreign banks a precondition for entry of new foreign banks. Alwaddan (2005) has argued that the reason behind the Libyanisation policy was to promote the local banking sector, as foreign banks were seen to be putting their own interests above Libyan national interests. Husien (2007, p. 110-111) agreed with this viewpoint, and even went further to state that the changes, brought by the new law, were designed to diminish the role of the foreign banks in the country "... since the foreign banks were designed to provide short-term credit for commerce where risk was limited and the profit margin was relatively high". In the opinion of Gabgub (2009), this position taken by foreign banks obstructed efforts in accomplishing Libyan economic objectives.

However, four foreign banks—namely the branches of the Arab Bank, the Bank of Napoli, the Bank of Rome and Barclays Bank—rejected the Libyanisation policy (Hanibich, 2009). Nevertheless, the Libyan Real Estate Industrial Bank was established on 7 September 1965 to finance industrial and estate investments, and five commercial banks were founded, with 51% of the capital of each owned by the Bank of Libya (Hanibich, 2009).

On 1 September 1969, Muammar Al Gaddafi—along with a group of officers calling themselves the Revolutionary Command Council (RCC)—led a military coup, taking over power and proclaiming Libya a republic. They came with a different ideology in terms of the economy and politics. For instance, Libya's economy during the period 1951 to 1969 had been mainly capitalist, where the private sector was encouraged and intervention by government limited (Husien, 2007); however, after the coup, the goals of Arab unity, socialism and freedom were emphasized and, subsequently, the Libyan economy moved toward socialism.

Before the RCC made its first decision regarding the banking industry, a Libyan private bank called Al Kafela had already been established, and started its activities at the beginning of November 1969 (Hanibich, 2009). A few days later, the RCC completed the Libyanisation process for branches of foreign banks, which had earlier rejected this policy. The council issued an edict on 13 November 1969 converting these branches into stock companies, with no less than 51% of their shares to be owned by the Libyan government (Sharkasi, 2011).

Moreover, according to this decision, the majority of the board of directors of foreign banks operating in Libya had to be Libyans (Fakhri et al., 2009). This appeared to reflect the low level of trust in foreign banks and their role in developing the Libyan economy.

Based on the above, this period is distinguished by implementation of both national economic and social development plans, and the Libyanisation policy. This policy was formulated and executed as a reaction to the conflict between the interests of both foreign banks and the Libyan state.

#### **The Fourth Stage: 1970–1992**

The radical conversion to socialism affected all later aspects of Libyan life: socially, politically, economically, as well as the performance of the banking sector. Aspaq (2011) pointed out that one of the most important events after 1969 was the requirement that banking sector objectives be consistent with the general policy of the new political system. As such, the banking sector was seen by this new system as "a primary objective of its general program of Libyanisation and nationalization" (Alwaddan, 2005, p. 46).

The years 1970–1992 witnessed fundamental political and economic changes. The RCC "sought to transform Libya into an independent Republic, free from what was perceived to be the various foreign influences whose presence were permitted under the old monarchy" (Hajjar, 1980, p. 184). Moreover, the military bases of Britain and America in Libya were closed in March and June 1970, respectively. In the same

year, the property of Jews and Italians in Libya was confiscated (Hajjar, 1980). This included the shareholdings of the Italian banks in the Umma Bank, the Al-Esteqlal Bank and the Sahara Bank (Hanibich, 2009).

In 1976, Al Gaddafi published the first chapter of his book *The Green Book*. In this chapter (which was followed by another two concerning economic and social issues), all existing political systems, with particular mention of capitalism and communism, were claimed to be flawed and undemocratic. Al Gaddafi presented what he called “direct democracy”, which is based on the rule of people—all people; not parties, nor other kinds of political systems. Theoretically, under this system people rule themselves through their periodic assembly called Basic People’s Congresses, where they discuss all national social, economic and political matters, and make related decisions. These decisions are implemented by executive bodies, which in turn are chosen and headed by managers appointed by the people themselves. In such a unique system, Al Gaddafi held no official or executive position; rather, he was viewed as a theoretician and leader of the revolution. On 1 March 1979 he relinquished all official titles except that of “Leader of the Revolution” (Hajjar, 1980, p. 187).

In the second chapter of *The Green Book*, both capitalist and socialist systems were criticized and seen as unfair for the workers and biased towards the interests of either companies or the state. In this chapter, workers in the existing economic systems are claimed to be modern kinds of slaves in as much as they are given wages in return for their efforts in the production process. The chapter raised the slogan of “partners not wage earners”, and called for a different kind of economic institution in which management was chosen by the workers and revenue divided in a fair way between workers, raw materials and the machines used in the production process. In this chapter, profit was not considered the main goal of management, but was seen as an exploitative phenomenon.

The following year saw the implementation of *The Green Book*, or what is called by its author *The Third Universal Theory*. Habara (2009, p. 94) stated that “most legislations adjusted to become compatible with the concepts of *The Green Book*”. On 2 March 1977 Al Gaddafi proclaimed the beginning of the era of the people’s rule. The name of the country accordingly changed to become The Socialist People’s Libyan Arab Jamahiriya, and all other types of known political systems became prohibited.

This type of system had fundamental implications on the Libyan economy. Habara (2009) argued that the dominance of the public sector on economic activities is a key feature of *The Green Book*. The public sector started to expand at the expense of the private sector. The share of the latter sector investment to GDP decreased from 9.3% (out of 18.8% fixed investment) in 1970 to 1.3% (out of 13.8%) in 1990 (Husien, 2007). In fact, the private sector was almost totally abolished by 1979, and the government started controlling almost all economic activities. The dominance of the public sector over the economic sector lasted until 1989 (Alwaddan, 2005).

### ***The influence of significant government plans and intervention on the national economic and social development of Libya, 1969–1992***

#### ***The period 1969–1972***

A development plan was formulated by the government in 1969. This plan was the second, and was affected by political change that occurred in 1969, which brought about a different view of economic activities conducted in Libya; therefore, the plan was not implemented (Gait, 2009). As a result, the two years subsequent to 1969 witnessed economic stagnation (Alwaddan, 2005).

For the banking sector, a significant event occurred during this period. In December 1970, Law No. 153 was issued to nationalize the banking sector, and all commercial banks became totally owned by Libyans. The goal of freeing Libya from “what was perceived to be the various foreign influences” included financial influence, and addressed the difficulties (mentioned earlier) which the Bank of Libya had encountered with foreign banks. The nationalization process appears to be an extension of the previous actions regarding the military bases of Britain and America, and the property of Italians and Jews in Libya. All these steps were taken in the same year. Husien (2007, p. 112) observed that the underlying goal of the Nationalization Act was the “intention to end the capitalist monopolies in the banking sector”.

The number of Libyan commercial banks dropped from ten to five, namely; the Gumhouria Bank, the Umma Bank, the National Commercial Bank, the Wahda Bank and the Sahara Bank. The Bank of Libya owned all the capital of the first three banks, and most of the capital of the other two banks. The dominance of these five banks in the commercial banking sector lasted for more than two decades.

In 1971, banking law No. 63 was issued amending the previous law No. 4, which was issued in 1963. The new law changed the name of the Bank of Libya to the Central Bank of Libya, and gave it more power to supervise, direct and control the activities of commercial banks. Alwaddan (2005) identified an important and dramatic change in the main goal of commercial banks: profit maximization no longer became their priority. Article (57) in the law 63/1971 stipulated that:

The Central Bank of Libya shall control and supervise commercial banks, regulate the relations between them, coordinate their activities and follow-up their work in implementation of the general policy laid down for the banking sector, in accordance with the general plans of state.

Government policies guided commercial banks whose activities turned from focusing on profit to concentrating on financing the official social and economic plans. This casts doubt on the validity of describing these banks as commercial banks. It seems that by becoming government-owned, they turned into financial tools for implementing the government's plans. Thus, the commercial banks extended their activities to cover wider areas, participated in the establishment of some foreign firms and banks (such as the Euro-Arab Bank and the Franco-Arab Bank), financed more sectors, and cooperated with the Libyan Real Estate Industrial Bank to solve housing problems by providing housing and real estate loans to people with average and limited incomes (Alwaddan, 2005; Husien, 2007). As Alwaddan (2005, p. 55) stated "the activities of commercial banks in Libya were extended to all fields all over the country".

Habara (2009) mentioned that commercial banks, in order to achieve economic and social plans, opened many branches in different parts of the country to provide their services and loans to all Libyan citizens and to all government sectors. What made the opening of bank branches necessary was that by law, all wages and salaries of governmental workers and employees had to be provided through banking accounts, thus establishing a need for continuous contact between banks and citizens whatever their location.

In February 1972, banking law No. 18 was issued—and later amended in the same year by law No. 66—founding the Foreign-Libyan Arab Bank. This was established to conduct banking activities outside Libya (Husien, 2007).

### ***The period 1973–1975***

About \$6.6 billion was devoted to implementing a government plan for 1973–1975, with special focus on sectors such as housing, 18.4%; agriculture, 16.6%; electricity and water, 13.1%; transport and communication, 12.9%; industry, 11.8%; education, 9.8%; and public services, 9.5%. Interestingly, the sector of banking and insurance received the lowest percentage: 0.02% (Alwaddan, 2005). The plan was regarded as being successful since a 19.5% actual growth rate was achieved in non-oil production, exceeding the expected growth rate of 17.5% (Habara, 2009). What seems to be interesting is the existence of a political motive (at that early time) behind this economic plan. Gait (2009) commented that one of the reasons for implementing this plan was to gain the support of the Libyan people for the new political regime.

### ***The period 1976–1980***

A government development plan was formulated for the period 1976–1980. The budget devoted to this transformation plan reached approximately \$24.3 billion, with the priorities of the plan changed to focus on manufacturing (21.1% of the total investment), transport and communication (16.7%), and agriculture (14.4%) (Alwaddan, 2005). Habara (2009) considered this plan to be a success as the rate of annual economic growth from 1975 to 1980 was about 6.6%. He mentioned also that during this period, funds, loans and facilities were granted to encourage the rural population to refrain from migrating to cities. It is obvious that oil revenue was the main source for financing this plan—and others before it. By the end of this period, however, this revenue had reached its highest value since 1970, and it then started to decline after the end of 1980 (Gait, 2009). Such a turning point had negative implications in the 1980s on economic and social plans and the Libyan economy at large.

In response, Libyan commercial banks during 1976–1980 witnessed considerable changes in their structure, objectives, activities and participation in financing all, an outcome of the economic situation, particularly the increase in oil production and price, and the changes made to banking laws (Alwaddan, 2005). Table 1 demonstrates a considerable growth in commercial banks' budgets—specifically their capital and reserves, deposits and credit granted:

**Table 1:** Capital and reserves, deposits, and credit granted (Libyan commercial banks during the period 1970–1980) (Million LYD)

Item/Years	1970	1973	1975	1976	1980
Total credit	96.2	240.9	641.9	739.5	1321.2
Capital and reserves	9.9	24.2	43.6	47.9	148.6
Total deposits	129.7	367.1	615.9	826.5	2416.2
Total assets	160.0	452.3	923.0	1,160.2	3436.3

(Source: Central Bank of Libya, 2001)

### ***The period 1981–1992***

In the 1980s, the decline in the demand for oil negatively affected the general budget of the country and caused a Gross Domestic Debt which reached LYD 5,345.4 million by the end of this decade; this was covered by the Central Bank and commercial banks (Husien, 2007). During the period 1981–1985, Libyan exports of crude petroleum decreased from LYD 6,287.300 in the first year to 3,184.000 in the last year; this, in turn, resulted in a deficit in balance of payments, as well as a decline in GDP (Gait, 2009). Inflation also reached

11.9% in 1982 (Husien, 2007). This situation created difficulties in financing many development projects. The Central Bank, in response to this situation, implemented a restricted policy regarding foreign exchange, which badly affected the banking sector in terms of net foreign assets and currency supplies (Husien, 2007).

However, in the 1981–1985 period, the industry sector continued to be a focal point of government policy, gaining 23.1% of the total investment, followed by the agriculture sector (18.2%), transport and communication (12.3%) and then the remaining sectors (Alwaddan, 2005). Therefore, two specialized banks were established in 1981 to replace the Libyan Real Estate Industrial Bank (Hanibich, 2009). The first was The Saving and Investment Bank, and its main task was to encourage estate saving and investment, and to provide housing loans. The second bank was the Development Bank, and its task was to finance productive activities of the economic sector.

About 80% of the credit granted by commercial banks during the 1980s was allocated to the public sector (Husien, 2007). Consequently, this period witnessed the growth of non-performing loans. The abolition of the private sector left commercial banks with little choice but to finance public companies, projects, and national economic and social plans. Since these were not profitable initially and their efficiency was low, loan repayments became a problem and the growth of non-performing loans became more noticeable. In addition, Libyan commercial banks were directed to contribute to covering the deficit in the general budget. In 1991, LYD 5,820.3 million was the commitment by public treasury to Central Bank of Libya and Libyan commercial banks (Husien, 2007).

The period 1986–1992 witnessed some political events that added more burdens on the difficult economic situation in Libya. For instance, in addition to US sanctions imposed on Libya in 1981 (Habara, 2009), in 1986 all Libyan assets in US banks and their branches inside and outside America were frozen by an American decision as part of a US policy fighting terrorism (Husien, 2007). In 1992, the UN Security Council also imposed sanctions on Libya because it was accused of being responsible for the destruction of Pan Am Flight 103 over Lockerbie and UTA Flight 772 over Chad and Niger.

Economically, the period after 1985 saw a sharp decrease in oil revenues on which the Libyan economy largely depended. As a result, and combined with the pressures resulting from the economic and political problems stated earlier, this period witnessed the beginning of government economic reforms—specifically, taking steps towards opening the door to the private sector once again. One of these steps was the establishment of the National Investment Company. This company was founded in 1986 in order to achieve two objectives: promoting privatization programs and attracting foreign investors (Kumati, 2008). This company was owned by the Libyan people who made monthly compulsory contribution to the company, of 1.5% of their salaries. In addition, a new kind of partnership called “Tachrokyaat” was introduced by the Libyan government, by which individuals were permitted to run small businesses in a cooperative way (Alwaddan, 2005). In 1987, decision No. 447 was issued by the Libyan General Peoples Committee transferring the ownership of some state factories to their employees (Sharkasi, 2011). The year 1989 brought more explicit decisions towards reopening the economy to private activities. Private ownership of small and medium industries became legal and the Libyan government started liberalizing some economic sectors (Alwaddan, 2005). Finally, law No. 9, 1992 was issued on 2 September detailing the privatization of public firms and the private participation of individuals and companies in the Libyan economy (Kumati, 2008).

It is worth mentioning here, however, that article No 11 in this law stipulated that the state and the commercial banks should provide these new private organizations with the necessary help and facilities including, specifically, credit facilities to conduct economic activities. It seems that commercial banks were being used once again as a tool to implement state policy and to respond to its directives, rather than giving banks a choice to behave naturally according to market considerations. Husien (2007) stated that the Comprehensive Economic Reform and Structural Adjustment Programs were designed to be implemented in two phases, and the role of the banking sector in these two phases was essential. The first stage commenced in the early 1990s and was aimed at enhancing macro-economic management and increasing dependency on non-oil sectors with the aim of improving growth. Accomplishing these goals entailed taking various steps, including consolidating the banking system. The second phase started in the late 1990s and aimed to reduce the size of the public sector in favour of the private sector and move towards a market-based economy. This direction created a need for taking some structural, economic and legal steps, including privatization of public banks.

Based on the above, it seems that since the 1970s, implementation of government policies via *The Green Book* resulted in an economy heavily controlled and managed by the public sector. This sector was characterized by weakness in efficiency and inability to invest the huge amount of capital allocated to it. This led to the public sector becoming a continuous and increasing burden on the public budget, amplifying the budget deficit. This situation was deepened by pressures of external factors, such as the dramatic drop in oil export and its price, and international sanctions. The government realized that abandoning the private sector was not the right decision, at least from an economic point of view.

### **The Fifth Stage: 1993–2004**

The change in government attitude and policy to the participation of the private sector in the Libyan economy created a need to first reform the banking system. The government came to realize that privatization programs and participation of the private sector in economic activities requires, to a certain degree, liberalizing the banking sector from state control. Alwaddan (2005) argued that the economic reform policy implemented by the Libyan government, starting from the mid-1980s and focusing mainly on the private sector, needed a strong and effective banking sector. Kumati (2008) argued that such a strong banking sector could underpin economic reforms and private investment initiatives. As a result, banking law No. 1 was promulgated on 21 March 1993. Husien (2007) deemed this law to be the first step needed to facilitate the process of reforming the banking sector. However, the main objective was still to support the reform policy of the Libyan economy. For example, according to Article 51, commercial banks were still required to contribute to financing the government's plans. Husien (2007, p. 116) stated that "since that year (1993) commercial and specialized banks have offered their services and conducted their work in observance of this Law and in accordance with the general policy of the state". Gabgub (2009, p. 106) commented that:

...the disparity in the volume of loans granted by the Libyan banking sector is linked to the policy of the Libyan state in respect to socio-economic development. Thus, it can be said that the Libyan government has given more attention to support the activities related to socio-economic and infrastructure projects.

In addition, the 1993 law, after more than two decades, recognized again the importance of foreign participation in the banking industry. The law stipulated that foreign banks be allowed to conduct banking activities in Libya through their branches, agencies or representative offices. As a result, until 31 December 2004, there were eight representative offices of foreign banks in Libya (Hanibich, 2009).

The law also permitted the establishment of commercial banks in the form of stock firms, paving the way for the growth of private participation in the banking sector. As a result, four private banks were established. In addition, the regional banks, known as "Al-Massaraf Al-Ahliya", were also established as private banks, for the sake of developing the different regions in Libya where they operated. By the end of 2000, there were 44 regional banks operating to "spread the banking services, and provide the necessary credit to the small productive projects in those regions" (Central Bank of Libya, 2001, p. 7). However, in 2002, another specialized bank—the Rural Bank—was established joining the other three specialized banks. The main aim of this bank was to "motivate people with limited income, and unemployed individuals who are looking for a job to contribute in the productive process and to enhance their living standards" (Central Bank of Libya, 2006a).

Issuance of the law No. 1 paved the way for the government to continue its move towards turning parts of its public sector into a private sector. In 1994, 145 manufacturers had been transferred from the public sector to the private sector, and in 1995 the ownership of another 295 manufacturers was transferred to their employees (Sharkasi, 2011). Furthermore, the Libyan government issued its decision No. 313 in 2003 transferring the ownership of 260 firms to the private sector. In addition, the government provided some incentives for private firms, including the exemption of taxes for five years and allowing the import of raw materials and equipment without paying tax and customs (Sharkasi, 2011). However, Husien (2007, p. 101) noted that although there was a general framework for the process of the privatisation founded in 2000, "there was no privatisation law, and the framework was neither finely-tuned nor realistic" (Husien, 2007, p. 101).

In November 2003, Al Gaddafi, Leader of the Revolution, admitted the failure of the public sector and called for the privatisation of all economic sectors, including the banking sector. Just two months later, in January 2004, the General Board of Privatisation was established to help plan, organise and implement the privatisation programs of public enterprises (Kumati, 2008). The process of privatisation then began to expand, and the government started to sell around 360 public companies (Husien, 2007).

In terms of economic plans, another initiative was put in place for the period 1994–96. It aimed at finishing the uncompleted projects of the previous plan, as well as implementing new projects in sectors such as health, energy, public utilities, and the industrial sector (Alwaddan, 2005). This plan was affected by the decrease in oil prices, and as such, the actual expenditure did not exceed 60% of what had been estimated. The year 1998 also witnessed a significant drop in oil revenue owing to the dramatic decrease in both oil prices and oil exports, which were partly affected by US and UN sanctions (Alwaddan, 2005).

During the 90s, and some years after, Libya witnessed the impact of international sanctions imposed by the UN on some economic sectors in Libya. Kumati (2008) refers to a report submitted to the UN secretary in September 1996, and a foreign ministry document in April 2003. The report demonstrated that the development programs and plans of health, social welfare and infrastructure were negatively affected by the economic sanctions imposed; the document also reported that, as a result of these sanctions, Libya's industries had lost more than US\$55 billion. Gait (2009) considers the international sanctions to be one of the causes of the economic stagnation which the Libyan economy encountered at that time.

By the late 1990s, Libya started changing its foreign policies and taking some steps to satisfy the Western world (Habara, 2009). These steps included stopping support for terrorist activities, handing over (on April 5, 1999) the two Libyans accused of blowing up Pan Am Flight 103 over Lockerbie, and implementing some economic ideas of the capitalism market. This subsequently resulted in freezing the economic sanctions in April 5, 1999 (and lifting them in 2003). Alwaddan (2005) pointed out that from 1999 the Libyan government started to make efforts to attract foreign investors to the Libyan market. In fact, these efforts started officially before that—specifically, with the issuance of law No. 5.1997 which encouraged foreign capital investment.

Another development plan was initiated during the period 2001–2005. Gait (2009) asserts that this plan aimed to reform the Libyan economy, especially after the freezing of international sanctions. He alludes to the increase of both GDP and the contribution percentage of non-oil sectors in this plan, and he attributed this increase to the process of liberalizing the Libyan economy—which involved some measures such as privatization of some public firms and opening the door to foreign participation in economic activities. In supporting the productive activities, the board of the Central Bank issued its decision No. 16 of 2004 to reduce the interest rate on industrial and agricultural loans from 5% to 3% (Hanibich, 2009).

By the end of 2004 the number of commercial banks in the banking sector of Libya totalled 57 (Hanibich, 2009). However, the banking sector continued to be dominated by public ownership.

It is worth mentioning that although the period 1993–2004 witnessed important changes in the banking industry in Libya—especially in relation to the privatisation issue—the attitude of Libyan commercial banks remained generally unchanged. According to Husien (2007), commercial banks continued their reserved policy in granting loans during the period 1993–2004. The ratio of credit to total deposits dropped from 86.2% in 1993 to 60% in 2004, and although there was a state policy for encouraging the private sector, the commercial banks continued to direct most of their credit (about 80%) to the public sector. Apart from the point of whether or not the Central Bank was responsible in any way for such a trend—especially as it was the owner of the major banks in the banking sector—Husien (2007) also mentions the Central Bank's ownership of public banks as being a weakness in the Libyan banking system. The potential conflict of interest between the roles of the Central Bank, as the owner of the dominant banks and as the regulator of the banking sector, weakens the efficiency of the bank.

#### **The Sixth Stage: 2005–2010**

This period is characterized by the issuance of banking law No. 1 on 12 January 2005. In this law, issues of credit granting and ownership of banks were addressed. Article No. 79 laid the responsibility of formulating and implementing rules for granting of credit on the board of directors of each bank. However, this was to be done within the framework of the credit policy, laid down by the Central Bank which, in turn, should be designed according to the state's general policy.

Regarding the issue of bank ownership, article No. 67 stipulated that commercial banks should be in the form of a Libyan joint-stock company, and shares in these banks could be owned by persons and legal entities—public and private alike. This article also opened the sector to foreign branches and representative offices. In addition, it gave the Central Bank authority to grant permission to foreign banks to hold shares in domestic banks, and even establish banks with foreign capital.

Hanibich (2009) considered that the period starting from 2005 was the genuine start of reforming monetary and banking policies in Libya. This period witnessed important events in the banking industry and financial sector at large.

The year 2005 witnessed a continuation in privatizing some productive and service units, and issuance of some laws and resolutions to encourage the participation of local and foreign investors in economic activities (Central Bank of Libya, 2005). In 2005, in addition to issuance of law No. 1, 2005, the Central Bank of Libya issued several resolutions. They included a number of resolutions granting permission for some foreign banks to open representative offices ; resolution (No. 22) giving the public the opportunity to buy shares in the Sahara Bank; and resolution (No. 46) granting permission for establishing the Alwaha Bank (Libyan commercial bank with foreign capital) (Central Bank of Libya, 2005). By the end of the year, the number of commercial banks—including the existing 48 regional banks—reached 58. Banking branches and agencies increased by 10 from the previous year, and their number reached 444 (Central Bank of Libya, 2005). Permission was also given to foreign banks in to open representative offices.

In May 2005, Saif Al-Islam, the son of Al Gaddafi, announced at the World Economic Forum regional meeting in Jordan that the Big-Five commercial banks would soon be privatised, and foreign banks given the chance to hold up to 50% of the shares of these banks, and to participate in their management (Kumati, 2008). At the governmental level, the Libyan government issued two decisions, No. 8 and No. 737, regarding organizing the opening and registration of branches and representatives' offices for foreign companies in Libya (Sharkasi, 2011). In addition, the Libyan government issued resolution No. 20 related to lending for housing and real estate, and economic activities including production, service and craft. Millions were transferred to the

specialized banks—The Saving and Investment Bank, The Development Bank, and Agriculture Bank—to be used in financing the economic activities mentioned above. Implementing this resolution led to an increase in money supply which, in turn, resulted in a positive rate of inflation (2.0% for the first time since 2000), and reduced the amount of the credit granted by the commercial banks (excluding the regional banks) due to the credit granted by the specialized banks with a lower interest rate (Central Bank of Libya, 2005).

In 2006, the government continued its policy of privatisation and foreign investment. However, the increase in money supply and rate of inflation continued, due to credit granted by the specialized banks, and an increase in the rate of public spending (Central Bank of Libya, 2006b).

In this year, the number of regional banks dropped. In February, twenty-one regional banks merged to form the National Banking Corporation, which became a commercial bank called North Africa Bank. The Central Bank set a time limit for the other 37 regional banks to correct their situation according to the provisions of law No. 1, 2005 (Central Bank of Libya, 2006b). Most had encountered financial difficulties, such as the increased size of their non-performing loans, inability to meet their obligations and fulfil the minimum subscribed capital required by law No. 1, 2005. This was in addition to the low quality of their services. More regional banks merged in 2007, and the remainder converted to four commercial banks. Additionally, the Central Bank sold its remaining shares in Sahara Bank (58%) to the Economic and the Social Development Fund, one of the public financial institutions operating in the Libyan financial sector.

The Central Bank of Libya also issued its resolution No. 56, 2006, accepting and certifying the results of a study (a) conducted to review the strategy of foreign banks' entry into the Libyan banking market and (b) designed to restructure the financial and banking sector. The implementation of this study's recommendations started the second half of 2006, but the first practical step occurred in 2007 (Hanibich, 2009). Apart from that, nine permissions were issued to open representative offices of foreign banks. This year also witnessed the establishment of the Libyan Stock Market. The Libyan government issued its resolution No. 134 on 3 June 2006 establishing this market. By the end of the year four banks were listed on the market (Central Bank of Libya, 2006b) along with three other companies.

In 2007, money supply and the rate of inflation continued to increase, due to an increase in public spending and credit granted, especially by the specialized banks. In the Libyan Stock Market, there were just six listed firms, four of which were banks. On 17 July 2007 the Central Bank announced that 19% of Sahara Bank's shares (owned by the Economic and the Social Development Fund) were sold to BNP Paribas Bank. This transaction was the first of its kind in Libya (Hanibich, 2009). In line with this step, the Central Bank issued a resolution to sell its shares in Wahda Bank. Fifty-four per cent (out of 87% owned by the Central Bank) of Wahda Bank's shares were sold to the Economic and the Social Development Fund. Another resolution, No. 50, 2007, was taken to merge two other big banks: Gumhouria Bank and Umma Bank. Three other permissions were issued for representative offices of foreign banks, and by the end of 2007 there were 19 offices (Central Bank of Libya, 2007).

The level of money supply and rate of inflation increased in the year 2008 for the same reasons as in the previous years. In respect to the banking industry, there were some important changes in the sector. On 13 February 2008, 19% of the shares in Wahda Bank were sold to Arab Bank, the same bank that had practised its banking activities in Libya from 1952 until 1970 when the nationalization process started. The Arab Bank (similar to BNP Paribas Bank), as part of the selling transaction, obtained the right to control the executive management, to be the majority on the directors' board, and to increase its share in the bank in the ensuing years.

In the same year, 2008, Gumhouria Bank merged with Umma Bank under the name Gumhouria Bank, which became Libya's largest commercial bank. Another bank called First Gulf Libyan Bank was founded by the resolution of the Central Bank No. 23, 2008 (Aspaqh, 2011). Fifty per cent of the capital of this bank was owned by First Gulf Bank (FGB), one of the UAE's banks, while the other half was owned by Libya, represented by the Economic & Alenmaa for Financial Investment Holding Company (AFIHC) (a public company). This was the fifteenth commercial bank operating in Libya at the end of 2010.

In relation to its ownership of the remaining major banks, the Central Bank decided to sell some of its shares in the capital of Gumhouria Bank and National Commercial Bank, apparently in response to criticism of conflict of interests. Three permissions were issued to the representative offices of foreign banks, and by the end of 2008 there were 22 offices (Central Bank of Libya, 2008). The Central Bank took a number of steps to resolve several problems related to the credit issues (Central Bank of Libya, 2008). In an attempt to resolve the problem of non-performing loans, the bank gave permission for establishing a financial services company specialized in debt collection. Permission was also given for establishing an office called the "credit information office" to provide credit-related information to all banks about prospective customers seeking loans in order to

avoid granting loans to unreliable or untrustworthy customers. In 2009 this permission led to the establishment of The Libyan Centre of Credit Information. Furthermore, the Central Bank started discussing the idea of subjecting the credits granted by specialized banks to the credit conditions followed by the commercial banks. In respect to the Libyan Stock Market, only financial firms (three insurance companies and four banks) were listed. Thus, the trading index in the market continued to be weak.

In terms of the banking industry in Libya, the Central Bank issued many resolutions in this year in order to increase competition in the banking sector (Central Bank of Libya, 2009). One of those resolutions was to determine the conditions and procedures for foreign participation in ownership of commercial banks, which should not exceed 49%. Furthermore, the Central Bank decided to increase the capital of Gumhouria Bank to LYD one billion (in February), and the capital of National Commercial Bank to LYD500 million (in May). The Central Bank issued another seven licences for representative offices of foreign banks, increasing their number to 29. In respect to the Libyan stock market, five banks (in addition to another five firms) were listed in this year.

The year 2010 witnessed the entry of another two strategic partners to Libyan commercial banks (Central Bank of Libya, 2010a). The first was BES (a Portuguese financial group), which became a shareholder of Aman Bank with a 40% stake. The other strategic partner was the Ahli United Bank Group (the Kingdom of Bahrain), which owns 40% of United Bank for Commerce and Investment. The number of representative offices of foreign banks increased to 32 offices. Moreover, and in order to improve the performance of the banking sector, the Central Bank of Libya issued a governance guide to be adhered to by all Libyan banks (Central Bank of Libya, 2010b).

The main development indicators of Libyan commercial banks over the period 2005–2010 are summarized in Table 2. This demonstrates a considerable growth in the budgets of commercial banks, specifically their capital and reserves, deposits and credit granted. On the other hand, the table also shows problems of non-performing loans and the increasing rate of liquid assets.

**Table 2** Commercial banks’ development and performance indicators (2005–2010) (Million LYD and rates)

Item/Years	2005	2006	2007	2008	2009	2010
Capital and reserves	1047.1	1176.3	1479.8	2144.4	3657.1	4517.8
Total deposits	13782.5	17359.4	24805.5	41530.5	48672.3	55313
Total assets	18524.9	23011.7	31185.2	50230	58767.8	65352.4
Total credit	6166.6	7067.2	8191.3	10544.6	11812.7	13044.6
Loans/Assets	33.2	30.7	26.3	21	20.1	20.0
Growth rate of Loans (%)	-5.3	14.6	15.9	28.7	12	10.4
Non-performing loans/loans (%)	31.7	26.1	26.2	22.5	17	17.2
Liquid assets/assets (%)	59.8	60.2	68	73.4	74.1	74.3
Net profit/average assets	0.5	0.5	.05	0.6	1.3	1.0

Sources: Central Bank of Libya (CBL), Financial and Monetary Statistics (2000–2010)

### Uprising of the 17th of February 2011

The February 2011 has witnessed the uprising of Libyans, as a part of the Arab people uprising in some Arab countries. It started by calling for justice, democracy and respecting human rights, and led to the end of Gaddafi's regime on the 23rd of October 2011. As might be expected, the collapse of this regime resulted in changes. For instance, in the following year, the banking law 1, 2005 was amended by Law No. 1 of 2012 and later by Law No. 46 of 2012, which include details on Islamic banking.

### Discussion and Conclusion

The banking industry in Libya has encountered significant events and changes during the period of its existence. This influenced the banking sector—its goals, activities and its impact on the Libyan economy. Studying the historical development of the Libyan banking sector can help us understand, and then predict, the attitude of Libyan banks towards financial and non-financial issues, such as social and environmental performance and disclosure. Researchers argue that there are specific factors influencing the level and quality of corporate social and environmental disclosure (CSED), and these factors are: general contextual factors; corporate characteristics; and internal contextual factors (Adams, 2002). The Libyan banking sector witnessed, throughout its history, especially from 2005 to 2010, many changes in some of these factors. However, it is likely that the influence of these changes cannot be fully understood and justified in isolation from the context of the earlier development of the Libyan banking sector. There are some points to be highlighted in light of what is discussed in this paper.

Firstly, foreign banks left a negative picture on the first pages of the Libyan banking story. They demonstrated, in the period prior to the second half of the seventies, that banks can go beyond their legitimate economic and financial roles to operate in unethical and even immoral ways that serve commercial or international political interests at the expense of the interests of the nation in which they conduct their activities. Italian banks were a good example of this when they participated in plans for the colonisation of Libya.

The dominance of foreign banks in the Libyan market and their monopoly of banking activities left Libyan people lacking basic banking skills, experience and education—a matter which was suggested by a United Nations subcommittee as a key factor in resolving Libya's economic problems. Foreign banks, furthermore, obstructed the performance of the Central Bank of Libya (in the first years of its establishment), and undermined its expected role in the financial and banking sector as a regulator, controller and head of the banking industry. This conflict of interest between the Libyan state and the foreign banks resulted in these banks facing retribution as soon as significant economic and political conditions changed in Libya. The result was an extreme reaction in the form of nationalization and liberalisation policies which prohibited any kind of foreign participation or ownership in this sector for more than three decades.

Based on the above, the history of foreign banks in Libya might not support the result of many studies (e.g. Haniffa & Cooke, 2005, Soliman et al., 2013) which highlighted the positive impact of foreign investors on the issue of CSED. The Libyan experience raises the question of whether this result is generally valid.

Secondly, the fundamental reason behind establishing Libyan banks was to implement national economic and social development plans. This role was underpinned by the political change that occurred in the late sixties, which emphasised such goals. It seems that since then, this inheritance has continued to cast its shadow over the minds of banking policymakers. This, potentially, has a negative impact on commercial profit as a goal, and consequently weakens the role of profit in the issue of CSED. As a result, the relationship between profit and the level of CSED is expected to be insignificant. Thirdly, the political, economic and social ideology of *The Green Book*, which has affected Libyan life since the seventies, had profound implications on the performance of Libyan banks for a long period. This ideology is the root of many problems that faced Libyan commercial banks. For instance, considering commercial activities and profit as exploitation phenomena casts doubt on the accuracy of the term "commercial banks", and caused these banks to be involved in non-profitable activities in Libya. Moreover, the dominance of the public sector for decades in all economic sectors in the Libyan economy and its subsequent failure badly affected the banking sector in terms of non-performing loans and inefficiency in banking performance. As such, it would seem to be an error of judgement to ignore the impact of the ideology of *The Green Book*.

Fourthly, and equally important, is that the exploration, production and export of oil considerably and positively changed the economic situation of Libya. By the same token, the decrease in the global demand for oil—and the decrease in oil prices as a result—had negative implications on the level of economic development, and on development and social plans. In both cases, the Libyan banking sector was affected. In the first case, banks were forced to finance plans for projects that were mainly public ones; in the second case it had to assume the burden of covering some of the general budget deficit. In the period 2005–2010, the heavy dependency of the economy on oil revenue continued, and it is reasonable to assume that economic sectors in Libya (including the banking sector) were affected by the fluctuation in oil prices and demand. The impact of such matters should not be left aside when discussing any type of banking activities—either financial or ethical. The fifth point is that the isolation of Libya as a result of the sanctions imposed by the international community contributed to creating a knowledge gap in regard to the most recent developments in the banking industry. Catching up with those changes may take some time. Careful attention should be paid to the educational levels of banks' personnel and the training programs provided to enhance understanding of the attitude of Libyan banks towards financial and non-financial issues.

Sixth, the pressure from the international community due to the political and economic sanctions was a major motivation for re-evaluating many Libyan policies, including those of economic, financial and banking importance. Establishing the Libyan Stock Market, turning towards a market economy, and opening the Libyan market to foreign investment can be deemed, even partly, the result of international pressures. Thus, political issues cannot be ignored when studying Libyan banking practices and the reasons behind their low levels of achievement.

To sum up, the review of the historical development of the Libyan banking sector illustrates that the culture of this sector is a result of mixed circumstances, inside and outside the banking sector. In fact, it was influenced much more by policies and decisions taken outside the banking sector. The political system and intervention of the political will were the main cause of the dramatic changes in the Libyan banking sector. Therefore, taking the external contextual factors (political factors, economic factors and cultural factors) into

consideration in investigating banking issues is a very important step in reaching an accurate conclusion. To be more precise, it can be said that any attempt to understand the low performance of Libyan banks, financially or non-financially, requires understanding the external factors, particularly the political environment that shaped the culture and behaviour of the economic institutions, including banks, in Libya.

What supports such a claim is that in respect to CSED, for example, the first Libyan studies in the field of social and environmental disclosure (e.g. Ahmad, 2004; Mashat, 2005) demonstrated the low level of this disclosure provided by Libyan companies, including banks. Tracking the development of the Libyan banking sector indicates that many of the influencing factors in the issue of CSED (such as: size, public ownership, private ownership, foreign ownership, listing on the financial market) have changed in Libyan banks, especially since 2005. These changes were expected to raise the level and quality of CSED. Yet, more recent studies (e.g. Elmogla, 2009; Bayoud, 2012) found a low level of CSED. Therefore, it can be argued that the impact of these factors is likely to be influenced by other factors. Therefore, understanding the attitudes of Libyan banks towards the issue of social and environmental disclosure entails having knowledge of the history of these banks and the environment in which they had been operating, in particular, the environment that remained unchanged for a very long time. Future studies can examine the validity of such a conclusion.

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