

The Impact of Accounting Information in the Libyan Economy: A Qualitative Case Study Approach

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Abstract

Purpose- This paper highlights the extent to which Libya's historical background has affected the role of accounting, illustrating the usefulness of accounting history both in understanding past practice and in setting a course for the future. **Design/methodology/approach-** The study is based on a literature review and archival research, reinforced by a qualitative case study comprised of interviews, attendance at meetings and a study of internal documents. **Findings-** Libya moved to a planned economy in 1977, resulting in a restricted role for accounting, as evidenced in the case of the Industry Secretariat (IS). Accounting's role was limited to fulfilling government reporting objectives rather than being used for decision making. Increasingly, recognition is being given to the importance of accounting information in assisting Libya to meet its economic goals. **Research Limitation/implications-** This study focuses on one case study, which does limit its generalisability. However, it also suggests fruitful research areas in considering the historic factors which have determined accounting's role in developing and planned economies. **Practical implications-** By providing insights about historic factors which have determined the use of accounting in a planned economy, this study has implications for similar economies as they move towards a more globalised mode of operations which enhance the role of accounting in meeting economic development needs. **Originality/value-** If developing countries are to harness the potential of accounting to aid in the achievement of their development plans, the historic and political setting in which accounting has been conducted need to be understood.

Keywords: Accounting information, developing countries, culture, planned economy

1. Introduction

In recent years, Libya has attempted to enter into the global economy, by moving towards privatization of its industrial sector and the establishment a stock market. With the aim of decreasing its dependence on oil revenue and increasing its industrial base, the country is in the process of implementing economic development plans that will assist it in reaching this goal. The purpose of this paper is to explore the historical factors in Libya that have influenced the way the country uses accounting information in pursuing its economic development goals. As Libya gradually emerges onto the world economy, and displays a greater interest in developing industrial might, its political, economic, legal, religious and cultural history will play a vital role in the extent to which accounting information is used.

This historically informed qualitative research paper relies on historical research and a qualitative case study of Libya's Industrial Secretariat (IS) to illustrate the extent to which Libya's history has influenced, and continues to influence, the extent to which decisions vital to the country's economic development are based on accurate and reliable accounting information.

The paper first provides discussion and critique of Libya's history and economic development, and then presents the case of the Industry Secretariat (IS), with an emphasis on the use of accounting information in meeting Libya's development needs. Finally, based on this historic understanding, conclusions are drawn about the role accounting needs to play in Libya in the future.

2. Libya's Historical Background

Libya, with an area of 1,759,540 square kilometres, is the fourth largest country in North Africa. It has a population of almost five and a half million (5 673 000) (Libya State 2006). The country stretches along the Mediterranean coast approximately 2,000 kilometres. Libya's neighbours are Egypt to the east, Sudan, Chad and Niger to the south, and Tunisia and Algeria in the west. In the development of Libya, geography has played an important role (Knapp 1977).

The Mediterranean coast links Europe and the Arab countries of North Africa. History shows that the active, lively cities of North Africa have been host to many European visitors who have come to trade goods, as well as travel for entertainment and business purposes. In that sense, Libya has been subject to global influences for centuries. On the other hand, the rural regions, being desert areas, stand in isolation and do not attract many visitors. Agricultural businesses, such as farming, can only be carried out where there are reliable water sources. Tribes live in the Sahara desert, however, few people travel the sandy wasteland and farming is possible on sparse oases only. The major religion in Libya is Islam and the language is Arabic. Originally, Libya was occupied by the Berbers but the Arab invasion in AD 642 made it an Arab country (Monti- Belkaoui and Riahi-Belkaoui 1996). The Arabs brought Islam to the country and named it Libya. During the 1500s, Europeans conquered Libya and ruled over it for about 40 years (The Economist Intelligence Unit 1997). After that, Libya experienced several foreign occupations, the last of which was that of the Ottoman Empire (1551-1911) and the European tutelage (1911-1951).

Early in its history, Libya was under the conquest of several invaders such as the Phoenicians, the Greeks, the Romans and, most importantly, the Arabs who finally settled down and significantly affected the lives of the Berbers. The World Bank (1960, p. 26) reported that it was the Ottoman Turkish emperorship in the Nineteenth Century that brought about the very powerful political situation in which Islam was introduced. Bedouins were the main body opposing the invasion by Italy in the Twentieth Century but Italy eventually won control of Libya and established a new ruling strategy linking the three major areas of the country (World Bank 1960, p. 26). These three regions were previously known as Cyrenaica in the East, Tripolitania in the West (now known as Tripoli) and Fezzan in the South. The Italian administrative system developed the basic infrastructure of the country, such as roads, port facilities, and different projects for irrigation. Unfortunately, Italy did not influence the educational system and paid little attention to training the people in technology or agriculture. Libyans joined the Allied side to fight their Italian rulers and gain independence during World War II (World Bank 1960, p. 27). This influenced the defeat of Italy but led to U.K. and French dominance of Libya for a time (1943-1951). Eventually, with the support of the United Nations, King Idris, a member of the Sanusi family, announced the independence of Libya when he proclaimed the United Kingdom of Libya, which existed from 1951 until the 1969 revolution. Following the declaration of independence, Libya suffered serious economic conditions and sought international and foreign help, representing little more than "a geographical expression" (Vandewalle 1998, p. 42).

The United Nations (UN) co-ordinated a three-group team to study Libya in 1950-1951 (World Bank 1960, p. 46). The head of the team, Benjamin Higgins (1968, p. 819), was very pessimistic about the possibility of any development in terms of the economy or social aspects, although he (Higgins 1968, p. 821) planned a six-year socio-economic development plan, which was adopted by the Libyan government after independence. Based on the report of the World Bank (1960)

Higgins's plan focused on education and training programs. As a complementary project, the UN assisted in operating a technical aid program for agricultural development and education systems. The U.K. and the U.S. also took part in this project. As a result, these two countries established military bases in Libya for about 20 years and started a military settlement in 1953. The U.K., consequently, granted a sum of £2.75 million annually to support the deficit budget and £1 million annually for economic development. The U.S. also agreed to offer \$42 million, payable over 20 years (World Bank 1960, p. 45). Knapp (1977, p. 202) added that the development plans had a slow pace and left Libya in the category of an underdeveloped country dependent on foreign aid.

In 1959 the situation changed. It was then that research prospectors from Esso (now Exxon) announced Libya as being rich in petroleum resources (World Bank 1960, p. 5; Knapp 1977, p. 202). Further discoveries followed and concession holders quickly initiated commercial development. Before the discovery of oil, Libya's economic development was seen as a discouraging matter but after 1959 this was changed to a prosperous outlook and provided a turning point in the history of the country.

The governing power in Libya changed with the military seizure on September 1, 1969 by the twelve directors of the Revolutionary Command Council (RCC) (Monti-Belkaoui and Riahi-Belkaoui 1996). This council first proclaimed Libya as a free, independent country with the name of "Libyan Arab Republic". Muammar Al Gathafi was a member of the council holding both the positions of Prime Minister and Defence Minister. Gathafi was affected by the revolutionary ideas of the Egyptian leader, Gamal Abdul Nasser (Monti-Belkaoui and Riahi-Belkaoui 1996). The council set a basic motto of "Freedom, Socialism and Unity" according to the Egyptian model. Following the socialist ideology of the government, Libya's official name was changed to "The Socialist People's Libyan Arab Jamahiriya." The term "Jamahiriya" is translated to mean "power to the masses" (Wright 1982, p. 191; Altunisik 1995, p. 28). Gathafi, as the leader of this Jamahiriya wrote a book in the 1970s titled *The Green Book*, in which he set forth his principles of political, economic and social programmes (Knapp 1977, p. 197). This book is similar to the "Little Red Book" of Mao Zedong for the Chinese. The Green Book contained pronouncements on Libyan development for transportation, communications, utilities and other basic services. Gathafi rejected communism and offered an Arab interpretation of socialism, which inserted Islamic principles into the social, economic and political reformative movements. It led to the settlement of a unified political party named the Arab Socialist Union (ASU) in 1971, which followed the model offered by Egypt (Knapp 1977, p. 197).

The establishment of the Arab Socialist Union in 1971 basically changed the structure of domestic policy. According to Ayubi (1992), although some countries followed the doctrines of socialism, they did not have strong socialist beliefs. Rather, they were followers of economic and political structures, not proactivists (Jaruga 1990). In Libya, such a socialist structure caused the emergence of an economy where many projects belonged to the State. Turkey, Iran, Egypt and Algeria had all, before Libya, transformed the State into an instrument designed to organize and promote industrialisation (Bearman 1986, p. 126). The cultural or popular revolution of Libya caused the remodelling of the social and economic situation (Bearman 1986). The revolution had different goals, such as the challenge of inefficient bureaucracy, the absence of public participation in sub-national governmental structures and difficulties in co-operative action of national policy (Bearman 1986, p. 140). Gathafi (1980) explained that the emergence of "people's committees" helped to solve the problems. Such committees were responsible for the management of local affairs and applied the systems of direct democracy, which was outlined in the first volume of his Green book (Gathafi 1980).

After the replacement of the General People's Congress (GPC) by the Revolutionary Command Council in 1977, more changes began to take place. The basic plan of the new structure was a legal GPC which was also presided over and controlled by a Secretary as the head. This GPC appointed members of the General People's Committee and created the General Secretariat of the GPC. In this way the General People's Committee can be considered the government cabinet and all the authorities whether executive or legislative, were under the responsibility of this committee. There are two other Congresses, the Municipal People's Congresses (MPC) and the Basic People's Congresses (BPC) in which people discuss relevant decisions. Finally, such decisions are transferred to the GPC for further consideration and national political oversight. Tribal loyalties play an important role in Libyan social relations, economics and politics. However, the various legacies of the colonial period, independence, the development of the oil industry and the economic crises of the 1980s and 1990s did much to alter tribal and social structures. Indeed, traditional values have changed under the impact of economic changes. Social life in Libya centres traditionally on the individual's family and tribal loyalty, which override other obligations in the community. Loyalty to family, clan, and tribe and the emphasis on regionalism and sectarianism occasionally outweigh loyalty to a profession and the law (Aгнаia 1997, p. 120). Libya is no different from many other developing countries in having a number of traditions and customs which emphasise the collective rights and obligations of families and tribes. Tribal and family collectivity is institutionalised in peoples' work-related practices and social relationships. Thus, the Libyan culture is characterised by the prevailing attitude of favouritism in appointments to government jobs, which sees that they were and frequently are made on the basis of personal friendship or family connections rather than merit (Aгнаia 1997, p. 120).

The Popular Congress in Libya undertakes the process of defining the objectives and goals that Libya wishes to accomplish through established laws and legislation in regard to various policies (Gathafi 1980; Libyan People's Bureau 1982). However, these laws and legislation usually appear in the form of general principles and guidelines which provide administrative institutions a great deal of flexibility and freedom to undertake necessary measures during the policy implementation process. Therefore, the variability and instability of institutions and structures is a key factor affecting the efficiency and effectiveness of government policies and the extent to which objectives can be accomplished (El-Moghirbi 2003).

3. *Libyan Economy*

Oil is the main source of income in Libya. There is nearly no other resource in the country (Altunisik 1995, p. 48; Selway 2000, p. 69). Before the discovery of oil, Libya was considered as one of the poorest countries (Higgins 1968, p. 819; Altunisik 1995, p. 32). After the control of Libya by U.K. and Italian powers, the economic conditions grew better. Libya overcame the bad economic condition of the fifties with the aid of American and British financial support, along with UN backing through programmes (Altunisik 1995, p. 33). Before the economic development of Libya after the discovery of oil, the Libyan people earned their living through agriculture and animal husbandry (Higgins 1968, p. 820). The limited number of enterprises which existed before were controlled by Italian expatriates (Bait El-Mal, Smith et al. 1973, p. 85).

Knapp (1977) stated that, in contrast to neighbouring Algeria, Tunisia or Egypt, the colonial economy in Libya did not create clear domestic financial, commercial, capitalist or agricultural firms that had close economic relationships with colonial powers. Agnaia (1996, p. 32) demonstrated that before the discovery of oil, established industries were mainly responsible for the processing of local agriculture products, including flour, textiles, tobacco, footwear and clothing. Due to the primitive system of agriculture, which led to a very limited number of products, the economic situation was experiencing budget loss gradually. Benjamin Higgins, who was the economic advisor of Libya in early 1950 (Wright 1982, p. 108), described the economic situation of the country in this way:

[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. When Libya became an independent nation ... it fulfils all these conditions (Higgins 1968, p. 819).

Several authors (Altunisik 1995, p. 36) reported that the economic condition of Libya developed positively after the discovery of oil and led to an increasing investment of foreign capital in the country (Altunisik 1995, p. 36). After 1959, with the increase of international oil companies' investment in Libya, their need for direct foreign subsidies declined. Such investment caused the appearance of a surplus in addition to oil income, which accounted for 24.4 per cent of the country's Gross Domestic Product (GDP) in 1962, 61.7 per cent in 1969 and 28.3 per cent in 1992 (Secretary of Planning 1997). This continued to place Libya as the second largest oil producer among the Arab world. Consequently, there appeared a rise in per capita income from below \$40 in 1951, to \$1,250 in 1968 (Bait El-Mal, Smith et al. 1973, p. 85). Per capita income reached \$10,985 (LD3, 252)¹ in 1980 and afterwards it dropped to nearly \$6,064 (LD2 426) in 1997 (Secretary of Planning 1997; Secretary of Planning 1998). The oil sector's contribution to GDP reached its peak in 1980 (LD6, 525.7 million). On the other hand, the non-oil sector's climax reached LD 9, 998 million in 1997.

According to Bait El-Mal et al (1973), the Libyan economic system was feudalistic for the most part during the years 1951 to 1969. The Government did not interfere in private ownership and focused on the regions where a high degree of investment was needed. In order to encourage competition, the government set some standards and rules for private businesses, such as the establishment of rules of import and export, which demanded the necessity of issuing a licence for the importation of foreign goods. The second standard was the setting up of the Real Estate Bank of Libya (currently the Development Bank) which provided loans to Libyan business in order to establish local industries.

¹ LD denotes to the Libyan currency, Libyan Dinar.

Finally, there was the development of the Industrial Research Centre which assisted the operation of the country's development plans through producing technical and economic services in both the public and private sectors (Bait El-Mal, Smith et al. 1973, p. 86). After the discovery of oil, the economic situation jumped from a deficit to surplus income and the 1969 revolution turned the capitalist inclination to a socialist one. There appeared to be an increase in State interference and governmental expansion of the public sector as well as a rejection of the private sector. The structure of State ownership of businesses began in the 1970s, rapidly increased and reached a climax in the 1980s when the majority of businesses were controlled by the State (Altunisik 1995, p. 112). All the industrial operations, foreign and domestic trade, banking and insurance services were under the dominance of the State as well.

The Economist Intelligence Unit (1997) reported that although the Libyan economy was focused on the policies of authorities and central control, during 1990-2000 private companies appeared to operate their activities as well. The reason behind this shift was the heavy fall of oil prices in the world and the critical economic situation it brought about for Libya in the late 1980s and 1990s. As Vandewalle (1998, p. 84) stated, in order to compensate for the economic loss, the State gave freedom for the emergence of the private sector by introducing more liberal standards. The general purposes of such measures were the stopping of public spending, and blocking of subsidies and finally the encouragement of the growth of the private sector (Vandewalle 1998, p. 84). The establishment of group businesses was the first revolutionary standard that occurred in 1987 and 1988. Another reformative measure was the policy regarding the management of the private sector and selected projects and the end to limitations on private trading. In order to enhance the private practices, the government passed Act Number 9, enabling the process of privatisation of a number of public-sector companies. The major aim of the act was to regulate the important key function of private sector economic activities. The Act signified the main operative duties of the private sector, including production, distribution and services. Transport, agriculture, industry, commerce, tourism, and finance are the main areas of those activities. The Act also permits the establishment of privately funded companies and allows families to fund their own private business. It also allows the selling of public companies to private sector based organisations on General People's Committee suggestion.

The State issued another Act (Number 5), Foreign Capital Investment Encouragement, in 1997. In order to develop the economic and social situation, The Act set a base for foreign capital investments generally. It specifically encouraged investment in the fields which brought modern technology to Libya, offering variation of income and helping the development of national products, which, in turn, led to Libya's entering the international market.

4. Libya's Economic Development Plans

The policy of economic development in Libya in the early seventies aimed at giving greater attention to the industrial sector in order to play a role in decreasing dependency on the oil sector (as far as the income source is concerned) and lessening dependency on imports from abroad. The state has undertaken the task of increasing expenditure on the industry sector, which has been reflected in the establishment of many economic enterprises controlled by the government. As a result, the need for accounting information has increased.

The development movement went through two phases following the 1969 revolution. During these phases, economic and social plans were set up during the first phase, between 1973 and 1985, but during the second phase that covered the period from 1986 to 2003 the setting up of development plans was suspended, and instead, reliance was placed on the annual budget.

4.1 The Period of Setting Plans (1973- 1985)

During the period from 1973 to 1985 a change in Libya's development plans meant that a remarkable amount of attention was directed to the industry sector in order to undertake the vital role of diversifying the nation's economy, thereby lessening its dependency on oil. In addition, there was the creation of new job opportunities and the replacement of imports of some goods by local production, which contributed to the establishment of a strong industrial foundation. The three year economic and social plan between 1973 and 1975 focused on fundamental food industries and making use of available natural resources by providing assistance to the agriculture sector to ensure that the food industries were supplied with the resources they needed. In the subsequent five year economic and social plan between 1975-1980, more attention was devoted to the industry sector through the allocations it acquired during that period (Barker 1982; Bait El-Mal 2003).

The plan also offered a good deal of attention and priority in the implementation and operation of industry designed to replace imported fundamental goods with Libyan production. For example, final consumption industries, industries of intermediate the consumption, commencement of establishing fundamental mineral and chemical industries, the iron and steel industry and the expansion of oil and gas refinement were established.

The five year economic and social shift plan of 1980-1985 gave priority to investment and implementation processes in export industries, with the establishment of a group of integrated industries, which are considered to be intermediary industries. They made use of available organic and mineral materials and secured the manufacturing of a maximum percentage of those materials in order to increase added value in the industry sector and make a tangible change in the industrial production structure (Barker 1982; El-Jehimi 1987; Bait El-Mal 2003). The plans also aimed at broadening food industries so as to increase the level of import replacement to lessen dependency on the import of products of these industries.

In order to accomplish the objectives set by the 1980-1985 plan, a number of policies were adopted. The phrase, "partners not wage-workers", (Gathafi 1980, p. 43) aimed at increasing production, securing the continuity and stability of the work force, lessening the rate of work rotation and disseminating industrial awareness of the workers in order to increase the level of productive skills, was adopted. Industrial credit was broadened, guiding Libya towards industrial partnerships through economic development by choosing and researching industrial enterprises and guiding the private sector to make investment in them. Material incentives were offered to national industry by customs duty exemptions on machinery and raw materials and through tax exemptions.

Among the most important results of implementing the economic and social development plans during the period 1973 to 1985, was the accomplishment of higher rates of growth in overall production. Although these good results were achieved in the industry sector, the main objective was not achieved, which was to find alternative resources to the oil sector to generate foreign currency.

Despite the establishment of a standard industrial foundation, this foundation became fully dedicated to the local market. The results of this situation appear problematic in that the development strategy should have shifted towards the export industries and activities following the establishment of an appropriate production foundation. However, the adoption of this strategy was hampered by the constant predominance of administrative measures regarding economic decisions, which had a negative impact on industry efficiency and its capacity for competition. If there was anything that justified the policy of replacement in the first place, it was the lack of continuity through the period from 1970 to 1985. Also, the goal of accomplishing autarky in the agriculture field, regardless of natural and objective considerations, led to a lack of competition and recessionary inflation (Bearman 1986, p. 193; Secretary of Planning 1993; Secretary of Planning 1986, p. 52)

4.2 The Action Period with No Plans (1986-2003)

The consecutive decline in crude oil prices in the European market, and subsequently in oil returns from 1982 until the collapse in oil prices in 1986, all led to uncertainty about oil revenues and, subsequently, disorder in Libya's development efforts. Instead of making use of the opportunity to change planning objectives, economic administrators during the period 1986 to 2000 suspended development plans and relied upon annual development budgets (Altunisik 1995, p. 87). In order to deal with the decline in the oil prices, the government decided to take a greater role in both economic management and in the direct provision of goods. It also narrowed the field of commodity balancing (imports) and imposed restrictions on foreign remittances.

State intervention resulted in reduction of spending on imports. So that Libya's own manufacturing sector output would not have to compete with goods from overseas. In the absence of a new planning perspective, some of these policies led to the phenomenon of recessionary inflation. The following outcomes resulted from this situation in the industry sector:

- Dependence on oil continued, whether for funding development and operation expenditure or as a main resource to acquire income from transferable currencies (Secretary of Planning 1986).
- The use of production capacities in many production and service sectors was reduced. For example, operational activity was around 41.2% of overall capacity in 1997, which meant the existence of great inoperative capacity at a rate of 58.8% of the overall available capacity (Planning Council 2000).

- The available demand for goods decreased, both for local production and for imports. This was followed by a wave of inflation and exceptional increases in the price of many commodities, with a rate of inflation of between 100% to 350%, to the stage where the inflation rate reached its highest levels between 1980 and 2003 (Altarhoni 2003, p. 143).
- Development allocations declined through the handling of budgets, which contributed to the aggravation of recession and decline in the development rate of overall local production in the industry sector during the period from 1985 to 1997 (Secretary of Planning 1998).

In order to counter these negative phenomena, the state issued several pieces of legislation, which paved the way for the development of the private sector during the period 1987 to 1997. One hundred and twenty four factories were privatized and 10250 partnerships in industrial firms, covering various small industries, were established and commenced production activities (General People's Congress 2003).

However, the manner in which this legislation and policies were implemented did not ensure any tangible results. The industry sector still endures bottleneck difficulties and crises, which need study and analysis to steer the sector in the right direction. This is all due to the absence of planning techniques, which require the setting up of development plans to contain difficulties.

This was clearly evident in the interposition made by Gathafi in the Libyan Economic Forum and the aversion of oil revenue (future vision) when he said:... hundreds of factories have been established in order to sell products and bring foreign currency necessary to buy the raw materials and provide maintenance and services for machinery; we keep spending the revenue from oil on these enterprises thinking that they will replace the dependency on oil. Instead, they, as well, continued to strive for oil. The agriculture activities came to a standstill and so did industry (Gathafi 2003, p. 400).

The accomplishment of many economic development objectives stated by consecutive development plans in the last twenty years is due to several factors, which may be classified into three main categories:

- Domestic reasons encountered by the Libyan economy associated with the narrowing of Libyan markets and the incapability of making use of volume economies, the poor standard of competitive capacity of export industries and the poor standard or absence of economic feasibility studies;
- Reasons associated with the institutional organization of the development plans; and
- Reasons associated with the implementation of plans, the first of which is the poor standard of efficiency of implemented investments, especially in the production sectors, for example, agriculture and industry. These are in addition to the development policies adopted in the past.

5. The Impact of Environmental Factors on the Plans and Objectives of the IS

In Libya, like any developing country, environmental factors substantially differ from the environmental factors in the developed countries particularly Britain and the U.S. (Bait El-Mal, Smith et al. 1973; El-Sharif 1978; Kilani 1988; Bengerharbia 1989; Bait El-Mal 1990; Bait El-Mal 1990; Kilani 1990; Bakar 1998; Kilani 1998; Bakar and Russell 2003). Libya is characterized by the following environmental factors:

- Heavy dependence on oil revenue in funding various economic activities;
- Predominance of public sector ownership of these activities;
- Inefficiency of economic activities associated with public sector ownership;
- Continuous intervention on the part of the state in setting up the development plans, ineffectiveness of the accounting profession and its poorly regulated standards by the laws set by the state;
- Absence of appropriate accounting education system; and
- Absence of a stock exchange.

On the other hand, Britain and the U.S. are characterized by the following factors:

- Increase in the number of active stock markets, which play a vital role in funding economic activities;
- Predominance of private sector ownership of these activities;
- Active economic activities in all sectors;
- the accounting profession is well established and regulated by professional organizations and authorities; and
- There is an appropriate accounting education system.

Moreover, Libya, like any other developing country is seeking to accomplish economic and social development in a prompt and comprehensive manner. Despite the explicit environmental differences between Libya, as a developing country, and U.K. and the U.S., as developed countries, Libya has adopted the U.K. and U.S. accounting system. This means that accounting principles, auditing standards, accounting education and the institution of an accounting profession have been adopted without thoroughly considering local environmental factors. During the last three decades, Libyan society has witnessed extensive social, political and economic changes (The Economist Intelligence Unit 2003). Despite all these changes, the tribal structure of social relations still play a key role in the community (Knapp 1977, p. 178). These have affected country's plans and objectives profoundly.

The next sections of this paper present the IS case, first providing background on the Industry Sector in Libya, then assessing management of IS, companies and institutions under its authority, IS's objectives and plans, and structural changes.

6. Industry Sector Case Study

6.1 The Conduct of the Study

Data were collected mainly through semi-structured interviews with senior managers and officials within the IS (see Figure 1). Although gaining access and obtaining data were difficult, social and personal relationships played an important role in supporting the formal request to collect the data from the research setting. The IS interviewees were all male, except one, and their place on the IS organisation chart is shown in Figure 1. In addition to these seven interviews conducted within the IS, the Director of Companies and the Investment Department in the General Board for Companies and Public Economic Units Ownership were interviewed. This Board was a newly created Board whose purpose was to evaluate all IS companies' fitness for privatisation.

The interviews, lasted from forty-five to ninety minutes duration, and were sometimes conducted in two stages. Using the tape recorder allows a researcher to concentrate fully on the respective interviewees' answers and thoroughly observe their non-verbal behaviour. However, none of the seven interviewees agreed to their interviews being tape-recorded. This was because of the sensitivity of the issues being discussed. An outline of the main issues contained in the interviews was given to interviewees prior to starting the interview. Notes were taken during interviews, and manual analysis of the interviews was undertaken, summarising the main points and issues raised.

The researcher was given access to review some IS documents such as productions annual reports and budgets. This data was reinforced by observations and informal discussions made in the IS context.

6.2 Background to the Industry Secretariat (IS) in Libya

During the last three decades industry in Libya has significantly developed, in contrast to the situation in the 1970s. During the 1950s, 80% of the factories in Libya employed less than ten people (Barker 1982). The private sector in Libya was dominant until the end of the 1970s, after which most factories became associated with the public sector (Bearman 1986, p. 275; The Economist Intelligence Unit 2003), as the public industry sector was increasingly taken over by the state, to the point where public ownership fully dominated the whole industry sector (Gathafi 1980; Bearman 1986, p. 275; The Economist Intelligence Unit 2003). Industrial companies were distributed throughout the cities in Libya, where previously they had been centered in Tripoli and Benghazi (World Bank 1960, p. 33; Agnaia 1996; Bait El-Mal 2003, p. 210). This phenomenon was an outcome of various State development plans that had been set up to accomplish a number of objectives, such as the diversification of sources of income from sectors other than the oil sector, and the increase in the industry sector contribution to GDP and self-sufficiency in goods and services.

The shift towards heavy industry did not occur until the early 1980s when this became one of the priorities of the state's planning (Secretary of Planning 1986). However, due to the decrease in oil prices and the subsequent decline in state revenue during the mid-1980s, the great dependency of the development plans on oil revenue meant that some of projects and plans associated with heavy industry were hampered (The General Planning Institute 2000; Bait El- Mal 2003). Oil revenues decreased from 22 billion US dollars in 1980 to 5 billion US dollars in 1988. This major decrease caused a shortage in cash flow which resulted in the necessity to reduce development plans and programs (Bait El-Mal 2003).

6.3 IS Management

The General Popular Committee for Industry, on the governmental level, was abolished and replaced by the General Board for Transfer of Ownership of Companies and Public Economic Units in 2000. This change occurred in accordance with Resolution 198/2000. The IS remained on the municipalities' level and subsequently became subordinate to the industrial companies, for the IS on the municipality (Sha`biyat) level. Consequently, the presence of the researcher during the data collection period coincided with some of the structural changes taking place within the IS. In this respect, the researchers has provided a full summary of the effect of these structural changes upon the status of the general policies and the implementation of these policies in Libya in the period 1977 to 2004.

The Industry Secretariat (IS) managed its activities through a number of Departments, Boards and Institutions (See Figure 1 - The IS organisational chart). The Industry Secretariat's Secretary appointed a General Deputy and two Assistant Deputies: one for technical affairs and the other for production. The Production Deputy was concerned with companies' production, commercial, sales and financial issues. Companies provided the Production Deputy with monthly, quarterly and annual reports about their production, costs, sales levels and other administrative and financial information. Companies' financial reports were examined in the IS's Companies Department. The IS's Companies Department consisted of the Budget Division, the Legal Division, the Following-up and Performance Division and the Cadre Division. Companies' production reports were dealt with in the Production Department that compares the levels of production achieved and production targets. Issues related to exports and imports were dealt with in the Commercial Affairs Department.

The Technical Affairs Deputy was more concerned with technical issues rather than financial issues. The Project Planning and Follow-up Department, as one of the departments attached to the Technical Affairs Deputy, was concerned with planning new projects and following-up current projects. The Mineral Resources Department, which was attached to the Technical Affairs Deputy, was a relatively new department and was concerned with exploring and supervising mineral sites. The Quality Control Department was responsible for the hygiene and the quality of companies' products. This process was done through making sure that companies used and followed the right production components and procedures. The Research and Development Department was concerned with developing new ways of production and introducing new tools. The above mentioned Departments were accountable to the Technical Affairs Deputy to whom they provided their reports.

In addition to the above mentioned Departments and Divisions, there were a number of Boards and Institutions that reported directly to the IS's General Deputy. Furthermore, there were the IS representatives in the country's municipalities and regions who supervise and provide advice to public and private companies within their regions excluding other companies that are supervised by other sectors and the thirty-one companies (Industry Secretariat 1999) that account directly to the IS. These representatives held regular meetings with the IS's Secretary or the General Deputy to whom they provide their reports.

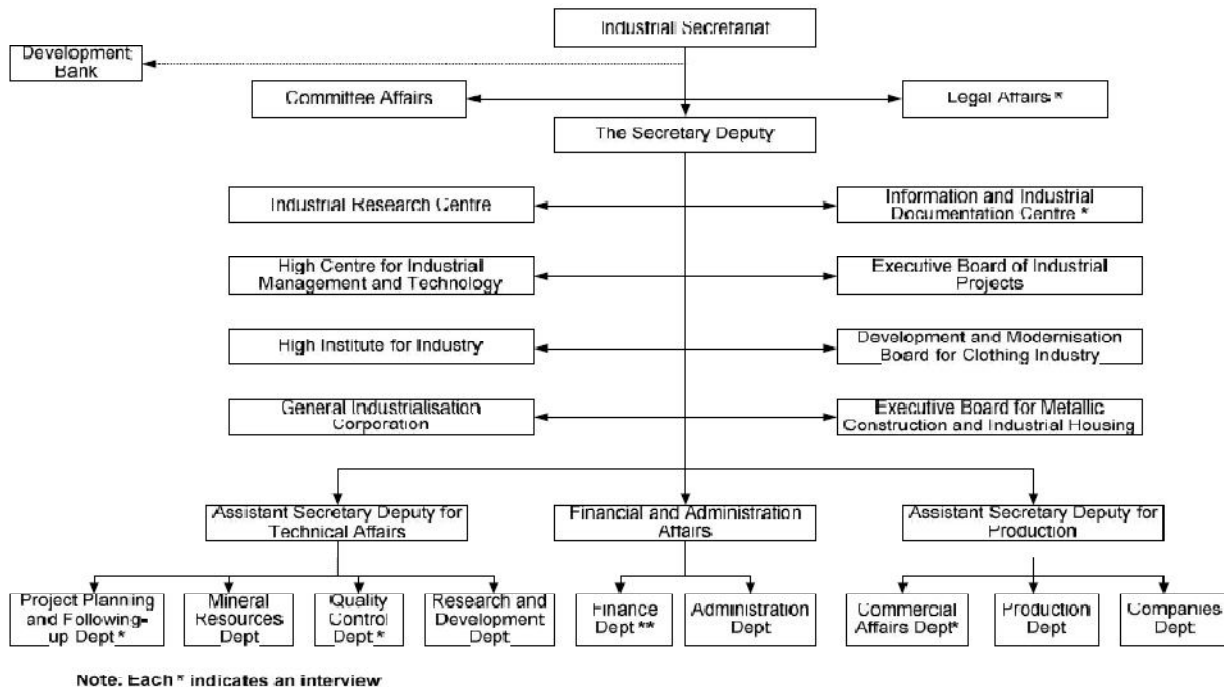
The change in the political system outputs, which principally represents a set of government policies within the various social, economic and political spheres, comes as a response to the inputs from the surrounding environment. The government's general policies are divided into distributional policies, organizational policies and inferential policies². These general policies Endeavour to distribute or re-distribute resources among groups and individuals to organize the conduct and relations between those groups and individuals, in order to discover and employ human and material resources. The general policies therefore are considered to be the most significant tools used by the political system to perform the distributional, organizational and inferential functions within the community. This paper now describes some of the initial indications and general effects regarding the influence of various structural changes in Libya on the status, implementation and efficiency of general policies in various fields and sectors such as the industrial sector.

The effectiveness of government policies is associated with the extent of instability and variability of the structures. The administrative and political institutions which assume the setting up and implementation of the general policies for the community in various fields and sectors, including the industry sector, are also considered, since the variability and instability of the institutions directly influence the efficiency of the position and the implementation of the various general policies.

² Distribution policies refer to the distribution of Libya's national annual budget between sectors. Organisational policies refer to the policies of individual organisations. Inferential policies are those that regulate non-government organisations.

The instability and variability of the institutions and structures of the position and the implementation of the general policies in Libya during the period from 1977 to 2004 were associated with a lack of efficiency and effectiveness of the general policies during the same period, which indicates the extent of the effect of the general policies with regard to the structural and institutional situations.

Figure 1: The IS's Organisation Chart



6.4 The IS's Companies and Institutions

The IS supervised a number of companies that employed approximately 50,000 employees in 1999, 90 per cent of whom were Libyans (Industry Secretariat 1999). There were three types of company that were supervised by the IS: Collective Ownership Companies, State Owned Companies and Joint Venture Companies. Collective Ownership Companies were small-scale private companies, which started to emerge in late 1988. These were either the result of transferring State Owned Company ownership to groups or newly established businesses. The IS delegated supervision responsibility for these businesses to its representatives in municipalities.

The second type of company supervised by the IS, State Owned Companies, were either fully or partially owned by the state. Fully state owned companies were those where the state, represented by the IS, other publicly owned companies, banks and the like, owned all their capital, whereas partially state owned companies were those in which the state shared ownership with other public or private, domestic or foreign parties. For example, the ownership of the National Company for Soap and Detergents was shared between three parties. They were the IS, which owned 80 per cent of the capital, the Development Bank with 6.9 per cent of the capital, and the domestic private sector, which owned 13.1 per cent of the company's capital.

The third type of company supervised by the IS, joint venture companies, were those where the state and a foreign partner(s) with special arrangements shared a company's ownership. The structure of joint venture company ownership differed and depended on each company's Articles of Association, the agreement arrangements between the state and the foreign partner. However, the state always owned more than half, that is 51 per cent or more, of a company's capital where foreign partner ownership was involved, as outlined in Article 4 of the Commercial Act No. 65 of 1970 (Libya State 1970). For instance, the IS owned 67 per cent of the Libyan Tractor Company's capital and a Canadian company, Massey-Ferguson, owned 33 per cent of the capital. The IS owned 75 per cent of the National Trailer Company and the Italian company, Calabrese, owned 25 per cent of the capital (Industry Secretariat 1999).

In the last decade, the ownership of 147 plants and productive units was transferred to employees as part of the quasi-privatisation process.³ The private sector had established 10,250 of these Collective Ownership Companies by 1998 (Secretary of Planning 1998). Furthermore, the supervision of 115 plants was transferred from the IS to other economic sectors such as the Economy Secretariat, which had activities linked to these companies' products. At the time of this study the IS supervised 31 companies divided into six categories, which included 180 manufacturing plants. The six categories involved the spinning and textile industry, furniture and paper industry, chemical industry, metallurgical industry, electrical and engineering industry, and food production industry (Industry Secretariat 1999).

In addition, the sector had other bodies and institutions attached to it, such as the Industrial Research Centre and the Information and Industrial Documentation Centre. The Development Bank, reporting to the Libyan government, made funds available to the IS. The Industrial Research Centre was established in 1970. The centre aimed at offering consultation and technical support to the IS. It conducted technical and economic feasibility studies for industrial projects. The centre was also responsible for publishing a list of the IS's investment opportunities available in Libya. The objectives of the Information and Industrial Documentation Centre, established in 1989, included organising training programmes for the sector employees and preparing periodic reports about the industrial sector companies. The Development Bank, created in 1981 to help finance industrial projects, was permitted to make loans to the industrial sector, to participate in the equity capital of industrial companies and to facilitate the import of machinery and raw materials (Industry Secretariat 1999). The general aim of the above and other institutions was to develop the Libyan industrial sector and to achieve the IS's goals within the country's centrally planned economic framework. The next section describes the IS's objectives and plans.

6.5 The Policies and Strategies of Industry in Libya

State policy provided support, in the form of funding from the distribution of budget and the development bank, to the industrial sector because of its crucial role in improving and developing the country. Through diversification of sources of national income and subsequently the reduction of almost complete dependency on oil revenue, the public industry sector also had to undertake the task of creating jobs and fulfilling community need for goods as well as making use of available resources, whether human or natural (Industry Secretariat 1994). In studying development plans in Libya, consideration needs to be given to the diversification and frequency of change in adoption of industrial policies and strategies. This involved diversification from a strategy of import replacement to a strategy that encouraged exports. This was in addition to the strategy of exporting the surplus from the import replacement industries after the needs of the local market were met. This not only implies a lack of stability of strategies, but also at the same time implies a diversification of strategies (Secretary of Planning 1986; Abusneina 1991; Secretary of Planning 1993; Secretary of Planning 1997; Secretary of Planning 1998). In researching the Libyan economy two important points must be borne in mind. First, the Libyan economy is a growing economy, which involves a large geographical area with a small population, and it is an economy that is largely dependent on oil, a resource that will eventually be depleted. Secondly, the Libyan economy has developed during the last three decades and adopts a socialist philosophy that encourages public ownership (El-Jehimi 1987).

We can say that the industrial policy in Libya has relied on two principal foundations: an abundance of capital expenditure in the industry sector and a focus on the public sector, giving it a key role to develop and improve the industrial sector (Abusneina 1991). This policy has resulted in the adoption of a number of important strategic objectives (Abusneina 1993) such as:

- Achieving autonomy in basic needs;
- Diversifying the national economy, and handling the difficulties within the economic structure by shifting to an economy that does not depend on oil, but rather can be supported by several major industries that will subsequently secure a source of income capable of funding the development processes of the country;
- Making a contribution in meeting the increasing demand for goods, particularly food products, from the local market and focusing on industries that produce products that can replace imported goods;
- Creating new job opportunities;
- Making use of available resources; and

³ These new establishments were known in Libya as Industrial Partnerships or Collective Ownership Companies

- Achieving a local balance in the development process.

Therefore, to achieve the above-mentioned objectives, industrial development in Libya has adopted two equally balanced methods. First is the establishment of medium and small industries, and the improvement of these industries to fulfil community demand, which in turn may reduce the dependency on imports from abroad. Secondly, it has worked towards the establishment and improvement of strategic industries, particularly, those that export products, but giving priority to chemical and petrochemical industries as well as oil and gas, which greatly depend on available local resources.

6.6 Evaluation of Industry Sector Plans and Objectives

Industry in Libya has devoted special attention to development strategies because of the key role the strategies play in the process of change and reconstruction of an economy that is not totally dependent on oil revenues (Bait El-Mal 2003). Industry also played a vital role in the creation of new job opportunities and accomplishing autarky, in addition to meeting public demand, making use of available resources and achieving local development (Abusneina 1993; Industry Secretariat 1994). Therefore, a researcher who studies the development plans of Libya (1973-1975, 1975-1980, 1980-1986) and the development plans and programs that have been followed, will notice variations and changes in the adopted strategies and the objectives of those plans.

When analyzing relevant documents and conducting interviews during the study, it was evident that the role of accounting systems in industrial companies is seldom clear to the staff, whether in the IS or in industrial companies (Shareia 2005). Despite the existence of a difference in the level of perception of this role, some participants in this study generally indicated that there is a role for accounting systems in the process of decision-making and development of plans. However, most participants strongly stressed the absence of any role for accounting systems in industrial companies in any process, whether in planning, control or taking strategic decisions. Many participants went to the extent of saying that the reports made and submitted by the accounting systems within industrial companies in Libya were merely routine work demanded by the legislation and by-laws issued by the state to regulate the IS, and the role of the reports in decision-making regarding pricing, production or investment was unremarkable.

On the other hand, the Director of Companies and the Investment Department in the General Board for Companies and Public Economic Units Ownership indicated that the main purpose of demanding these reports was for follow-up and supervision. The examination of correspondence forwarded to the industrial companies actually showed that there was frequent demand for some information that was included in the periodical reports that were sent regularly to the IS and other supervisory and control bodies. Despite what has been said about the role of accounting systems in the industrial companies, there was not a consensus among the participants (whether from the IS or the industrial companies) regarding the nature of this role. In addition, the role was expressed in general terms and no attempt was made to define this role in detail. Despite this, some Libyan policies were ambitious in relation to the potential of the Libyan economy. For example the purpose of autarky in industrial products, which is considered to be one of the pillars of the industrial policies' principles in Libya, was an ambitious goal in comparison with the limitation of the resources in the Libyan economy to achieve this goal, especially when crude oil reserves are taken into account.

Regarding the objective of reconstructing the economy and lessening dependency on oil, it can be seen that the Libyan economy has not been successful so far in avoiding dependency on oil. Also, the industry sector itself still relies heavily on oil, especially in providing its need for foreign currency, whether for acquiring raw materials or for investment and development. This was clearly evident in the interposition made by Gathafi in the Libyan Economic Forum on the aversion of oil revenue in the future, when he said: [t]he hundreds of factories that we have established in order to sell their products and bring the foreign currency necessary to buy the raw materials and provide maintenance and services for their machinery, we keep spending the revenues from oil on these enterprises thinking that they will replace the dependency on oil. Instead, they as well continue to rely on oil. The agriculture activities came to a standstill and so did the industry (Gathafi 2003, p. 400).

Therefore, if industry itself has been unable hitherto to continue to work without dependency on oil revenue, then it can be argued that it will not be able to accomplish one of its main objectives, which is finding an alternative for oil as a source of income. Incompatibility and ambiguity in defining the industrial companies' objectives, has led to ambiguity and lack of clarity among staff and workers in the sector in performing their work.

They seem to perform their work haphazardly, either in accordance with what their predecessors had already followed, or on the basis of ad hoc instructions issued by the department.

Generally speaking, the previous analysis related to analyzing the objectives qualitatively and the extent of their clarity to the staff and workers in the sector, linking that to the inability of the sector to accomplish these objectives and to consolidate the achieved results. The next section focuses on the extent to which the sector has been successful in achieving investment growth.

6.7 Investment Growth within the Industry Sector

Oil has been identified already as the dominating sector in the Libyan economy (Selway 2000). It forms approximately 30% of the country's GDP and is the key source of foreign currency (Central Bank of Libya 1994). The significant increase in the oil prices during the 1970s and the early 1980s was accompanied by growth in development expenditure, specifically in the industry and agriculture sectors. During the first development plan (1973-1975), priority was given to the agriculture sector (Bait El-Mal, Smith et al. 1973; Knapp 1977; Wright 1982), whereas in the second and third development plans (1975-1980, 1980-1985), priority was devoted to the industry sector with contribution rates of 21% and 23% respectively of the two overall development plans (Wright 1982, p. 263). This reflected the state's desire to speed up the industrial development process. These two development programs are considered to be the main turning point for industrial development in Libya. They are also considered to be the biggest two programs ever witnessed by the industry sector so far.

Despite the huge volume of resources devoted to the industry sector, its contribution towards GDP remained small (Kilani 1988, P. 39; Bait El-Mal 2003, p. 216). The rate of actual expenditure on investment in the sector concerned was approximately 5235.8 million Dinars during the period 1969 to 2003 (see Table 1), and average annual investment was approximately 153.9 million Dinars. Nevertheless, the actual rate for the sector did not exceed 3% of GDP and this contribution was under 8% during the 1970s, whereas in 2000, the rate dropped to 5.9%, and eventually dropped again to 3.2% in 2002 (Industry Secretariat 1994; Bait El-Mal 2003).

Table 1: Actual Expenditure and Investment Allocations for IS 1969- 2003

Period	Allocations (1) (Thousands Dinar)	Actual expenditure (2) (Thousand Dinar)	The average annual expenditure (Thousands Dinar)	% of expenditure in relation to allocation (2/1)
1969-1972	129.7	115.4	28.8	88%
1973-1975	231.6	269.5	89.8	116%
1976-1980	1515.5	1294.7	258.9	85%
1981-1985	3930	1723.4	344.7	44%
1986-1993	1708.8	714.1	89.2	41%
1994-1996	619.5	132.8	44.2	21%
1997-2001	103.125	16.5	3.3	16%
2002-2003	8812.727	969.4	485	11%
The total	17050.952	5235.8	153.99	30%

Based on: Central Bank of Libya, 2003.

The General Planning Institute, 2000.

Secretary of Planning, 1998.

Although the industry sector has shown a good contribution from investments, its performance has not reached the required standard. This is to some extent owing to a failure in implementing the development plans. For example, the ratio of implemented activities to planned activities in the industrial sector during the period 1981 to 2003, as shown in Table 1, was very low. The ratio fluctuated during the development programs (1980-1985, 1986-1993, 1994-1996, 1997-2001, 2002-2003) at the following rates: 44%, 41%, 21%, 16% and 11%, respectively.

As shown, this affirms the failure of industry sector to provide the resources that would lessen Libya's dependence on the oil sector, whether in the processes of investment or the acquisition of raw materials.

Owing to the reduction in oil revenue during the 1980s and the 1990s, the industry and other sectors suffered a reduction in expenditure compared to the initial planned figures (The Economist Intelligence Unit 2003). The decrease in oil revenue from 22 billion US dollars in 1980 to 5 billion US dollars in 1988 made it difficult to obtain the necessary cash flow for the development programs, which necessitated vital amendments to the development plan of 1980-1985, and the later annual development programs. Also, the decrease in oil revenue since the early 1980s delayed or cancelled most of the new development projects (Ghanem 1987; Elfiture 1992). Nevertheless, the actual percentage share of GDP for the sector did not exceed 3% and its contribution to GDP was under 3% during the 1970s, rising to 7.7% in 1993 and dropping back again after that (Secretary of Planning 1993) (see Table 2).

Table 2: The Share of the Industrial Sector in Gross Domestic Product in Libya 1970-2003

Year	GDP % share of	Year	GDP % share of	Year	GDP % share of
1970	1.7	1982	3.0	1994	6.3
1971	1.5	1983	3.9	1995	7.0
1972	1.8	1984	4.6	1996	5.7
1973	2.0	1985	5.4	1997	5.9
1974	1.5	1986	5.2	1998	6.2
1975	1.8	1987	5.6	1999	6.1
1976	1.9	1988	6.4	2000	5.0
1977	2.2	1989	5.7	2001	4.7
1978	2.7	1990	5.6	2002	3.2
1979	2.4	1991	5.4	2003	2.7
1980	2.0	1992	6.0		
1981	2.9	1993	7.7		

Source: General Planning Council (2000); Central Bank of Libya (2003)

Moreover, the decrease in oil revenue also caused a change in the method of funding development projects in industry, where industrial companies and not the state became responsible for funding development programs. On examining the three-year programs from 1994 to 1996, in the plan of change, it can be seen that allocations for the industry sector reached 619.5 million Dinars, at a rate of 10% of the total allocations for the plan from 1969-2003. Of this 61905 million Dinars, industrial companies were to contribute 467 million Dinars, that is, a rate of 75% of overall expenditure, whereas the Treasury Secretariat contributed 152.5 million Dinars, that is, a rate of 25% of overall allocated expenditure (Secretary of Planning 1993).

So, by the end of 1996 actual expenditure reached 132.8 million Dinars. The companies had paid 122.8 million Dinars, whereas the Treasury Secretariat had only paid 10 million Dinars, that is, contribution rates of 92% and 8%, respectively (Secretary of Planning 1997).

The analysis conducted showed that the most prominent characteristic of the industry sector was poor earnings on investments (Abusneina 1991; Abusneina 1993). It seems that many investment decisions were taken without sufficient feasibility studies, and other decisions were not reviewed during the various phases of operation. It is believed that the reason behind this was the poor standard of training and supervision of the people in the sector who were assigned to following-up and monitoring the various phases of the implementation process. Thus, the cost of investments was very often high (Industry Secretariat 1994).

As previously mentioned, it is clear that this huge expenditure may be explained by the fact that it was not only dedicated for economic purposes but also for local and social development purposes. The government's focus on the industrial public sector can be regarded as a means to achieve social guidelines. It is also a vital tool in successfully implementing the development plans, and this is partially clarified in the general objectives of the state, which ensure autarky, local development and the distribution of earnings on community over a vast social domain (El-Jehimi 1987).

From the previous discussion, it is clear that development objectives and their plans in the industry sector encountered many problems and difficulties, which prevented accomplishment of what was planned. However, these issues should not be dealt with without taking into account the impact of environmental factors (economic, social, political and cultural), as discussed in the next section.

6.8 Data Analysis: The Structural Change of IS

Ideological change in economic, political and social guidelines has led to the restructure of all state secretariats including the IS. Table 3 summarises restructures from 1977 to 2004. In 1977, the two secretariats that were in direct and close relation with the industry sector were the Strategic or Heavy IS and the Light IS. This change was executed in accordance with Resolution No. 4 of the General People's Congress, which stipulated the formation of the General Popular Committee in 1977. However, in 1979 the two secretariats cited above merged into one secretariat titled the IS. In 1982 the light industry component of the IS merged into the Secretariat of Economy and was retitled the Secretariat of Economy and Light Industry, and the strategic industry became independent of the secretariat in question.

This system remained in force until 1985 when the Planning Secretariat merged into the Secretariat of Economy, when the Light IS was abolished and the Heavy IS remained. In 1986, the secretariats of the industry sector were re-formed to become once more two secretariats, the Light IS and the Strategic or Heavy IS. This division policy continued until 1990 when further changes occurred within these secretariats. That is, the Light Industry Secretariat and the Strategic Industry Secretariat merged into one secretariat known as the Industry Secretariat with its strategic and light sections. In 2000, the IS was abolished and its competence was transferred to the Popular Committee Secretariat for Production Affairs. In 2004, the Popular Committee Secretariat for Production Affairs was abolished and the IS ceased to exist except on the level of Sha`biyas (municipalities) (Libya State 2004).

Table 3: The Structural Change of the Industry Sector Secretariats

Year	Industry secretariat names	The number of secretariats
1977-1978	The Heavy Industry Secretariat and the Light Industry Secretariat	2
1979-1981	The Industry Secretariat	1
1982-1984	Secretariat of Economy and Light Industry and The Heavy Industry Secretariat	2
1985	The Heavy Industry Secretariat	1
1986-1989	The Heavy Industry Secretariat and the Light Industry Secretariat	2
1990-1999	The Industry Secretariat	1
2000	The Industries Secretariat was abolished	0
2004	Industry Secretariat on the level of Sha`biyas	1

Source: (Libyan People's Bureau 1982; Libya State 1986; Libya State 1986; El-Jehaimi 1987; Libya State 1990; Libya State 1992; Libya State 1995; Industry Secretariat 1999; Bait El-Mal 2003; El-Moghirbi 2003; Libya State 2004).

It is clear now that the secretariats directly associated with the industry sector were subjected to a number of cases of merger, division and abolition throughout the period 1977 to 2004. This makes it difficult, if not impossible, to keep up with and follow clear and stable programs and policies within the industry sector. It also increases confusion about how accounting systems should play an active and vital role in all phases that may necessarily influence the efficiency and effectiveness of the economic policies and the extent of accomplishing their goals. The numerous mergers and divisions in these secretariats have led to the creation of disorder and deficiencies in conducting the tasks these secretariats undertake. This is in addition to the negative impact on the performance of the secretariats, the institutions and other economic bodies. Besides this, cases of merger, division and abolition can result in administrative instability, decline of efficiency and overlap in fields of specialization, which can have a negative impact on the role of accounting systems in the industry sector as a whole.

Easily concluded from this is that the failure of accounting systems to serve the development plans of the industry sector is a reflection on the lack of efficiency and effectiveness of the economic policies and their inability to accomplish the goals of these policies. The variability and instability of the structure and institutions associated with the industry sector both represent one of the major causes of the problems encountered by the industry sector in Libya, more specifically.

However, the various changes within the Municipality structure, the General Popular Committee and the typical popular committees directly associated with the industry sector, have led to lack of administrative stability. Administrative stability is considered to be a crucial factor for the stability of economic policies, both on legislative and executive levels, where the laws, rules and resolutions which regulate and re-regulate the municipalities are created. This has meant the general popular committee and the typical popular committees associated with the industry sector have become numerous. The increase in the number of rules and regulation and their overlap in the industry sector has been accompanied by the restriction of domestic industry in state-owned companies and the need for authorization to practise various industrial activities. These factors have contributed to the spread of chaos in the industrial field, the emergence of a black market, domination of unproductive dependent activities, an increase in the general level of prices, and so forth.

The lack of stability within the executive bodies of the secretariats, already highlighted, resulted in an absence of supervision and control. Furthermore, these changes have also led to a decline in the level of administrative efficiency due to the frequency of the merger, divisions and abolitions as well as the shift of administrative competence among the various positions.

It is no longer possible for the industrial sector secretariats to follow up their various resolutions and general policies, whether they are related to the determination of aspects of expenditure, domination over prices, or the distribution of goods and services, in addition to other aspects in which the accounting systems within the company sector play a vital and effective role. These changes have had a direct impact on the ability of these secretariats to collect and save data on principal economic indicators, necessary to adopt clear and sound economic policies. It is quite obvious that the absence of data collection regarding the level of inflation, domestic and foreign trade indications, patterns of consumption, levels of income and other indications, have all led to confusion among various economic policies.

As previously mentioned, it is obvious now that the main causes of the problems, deadlocks and crises encountered and still being encountered by the industry sector, focus on the lack of stability in this sector and subsequently, the absence of a clear and stable vision regarding the nature and trend of the general policies. The most important result of these problems and deadlocks was the attempt made by the state to abandon many of the policies associated with the sector, which had been set up in the early eighties, and which made the state the sole monopolist of the industrial activity and the chief employer in the community. Therefore, by attempting to privatize factories and companies and merge them into the private sector, and by authorizing individual industrial activities, the state has abandoned its obligations to support industrial companies.

The state cannot deny its role and responsibilities in this sector, because the matter requires setting up and implementing effective and successful general policies and this will not be possible without the provision of stable and reliable administrative and political institutions specialized in setting up and implementing general policies. The state cannot suddenly and without any prior notice deny its responsibilities in the employment and labor sector. The economic policies and measures of the early eighties almost conclusively put an end to the stability of the private sector to cater for the increasing numbers of the Libyan labour force.

Amidst the drifting current of Globalisation, the multitude of predictions and the call for state retreat, the state has a vital and crucial role to play, particularly in Libya, where the state owns the major resources of natural wealth. The Director of Companies and the Investment Department in the General Board for Companies and Public Economic Units

Ownership has indicated the following: [t]he legislations that the state has issued are in existence and in force, though the real problem is the failure to execute these laws and regulations because of the interference of social relations, and this in its part, has led to the persistence in committing mistakes, and in many occasions, the setting up of financial reports are accomplished only to fulfill the legal aspects, as the laws put forward the necessity of setting up these reports, and subsequently I think that the companies are negligent in presenting the true picture of the factories to the IS.

Besides, there is no one there who can undertake the task of analysing these data stated in these reports in order to deduce some results and indications and refer them to the decision makers in the general popular committee (the Director of Companies and the Investment Department in the General Board for Companies and Public Economic Units Ownership).

On the basis of this logic, these reports are characterized by being a routine process undertaken by companies and they have no role in laying out policies and decision-making process. Within the context of the question regarding the purpose of demanding these reports, the Head of Information and Documentation Centre said that the main purpose is to know the problems and difficulties encountered by the companies, but said also that she is unable to know whether this information has been utilized or not when she said:

“I don’t know, because my role ends up with the accomplishment of setting up and submitting the reports”.

The project Planning and Following-up Department Manager in the IS indicated that the budget has to be defined first, then the planning process and not the opposite way round, in order to encounter the plan according to the state’s framework and in conformity with its political statute, though the allocations always come late and limited.

And as a result, there isn’t any role for the data produced and presented by the accounting systems in the industrial companies in Libya.

He also indicated that there haven’t been any development plans since 1985: “There is no longer at all any plan, though it depends on the annual budget potentials allocated for the development process”.

The main problem which hampers the role of the accounting systems, is the constant change occurring within the department: There is always a justification for any problem, and this justification is the persistent changes within the department.

Regarding legal issues, he indicated that there are still obstacles as far as the legal aspect is concerned, because most laws issued by the state are contradicting each other and restrict the development process as well as the role of the accounting in this field. Besides, the public sector has not actually been set up one day for competition or shift to the private sector, but the objective at the very start was the creation of industrial foundation and new job opportunities for the local citizens.

In relation to the extent of qualitative and quantitative properties available in the information, which is set up and submitted by the accounting system in the industry sector, the Head of the Project Planning and Following up Department added: The data always come late and incomplete, and they are collected following continuous insistence, contrary to what used to be like when the state used to support the industry sector and things used to be characterized by centralism. As well, the increasing number of authorities, which demand the same information without coordination among each other, has led to the demand for the same information by the same authority more than once. Regarding social issues, the Head of the Project Planning and Following up Department went on to say:

[t]here isn’t really any deterrent for those negligent employers, owing to the influence of social relations that have even influenced the Board of Supervision and Control which is supposed to apply the law without hesitation. But on the contrary, this authority intervenes sometimes by breaching the law and revokes the punishment, which may be imposed on someone for his or her negligence.

When asked about the accounting objectives that he would very much like to see in the future, he said that [t]he accounting system must be approved and not be the product of diligence on the part of some people. By confirmation, the system cannot be breached and there must be complete administrative stability in the companies, especially the executive administrations, and the observance of expertise factors, as well as the emphasis on conducting economically feasible studies when establishing any enterprise in the future.

Regarding accounting applications in the companies at present, he believed that they were restricted and vary from one company to another, and that legislation did not touch on how the accounting system has been set within the company in order to improve performance. This legislation did not have any role despite its presence. Financial reports played a limited role, in his opinion: there are no additional explanations with the financial lists which give an opportunity to the person who is not an accountant to understand what the reports contain, and therefore there wasn’t any use for these reports in the process of decision-making.

Consequently, this has led many of those concerned to refrain from devoting attention to these reports and submitting them in due time with the required accuracy.

When asked about the role of the accounting system he said that “there isn’t any active role for the accounting system. Accounting is only part of a department, that is, a substitute company. A lot of factories have been established without conducting economic feasibility studies”. This was also indicated by The Director of Companies and the Investment Department in the General Board for Companies and Public Economic Units Ownership when he said: most enterprises in the past were carried out without conducting economic feasibility studies, because the main reason that lies behind them was not to acquire profit, but to create an industrial foundation and new job opportunities, and this in its part has led to the neglect of the accounting role which led these enterprises to this level of decline.

The project Planning and Following-up Department Manager talked about the situation in the past and observed: in the past, most attention was devoted to technical aspects in the industry sector, whereas the financial or the accounting aspect is a mere complementary aspect, and this was clear in all industrial companies’ managements which consisted of engineering personnel. And also there was a scarcity in the financial and accounting allocations and a sort of custom at that period when the director used to be an engineer supported by the state.

He went on to say that the accountant cannot be an electrical engineer, because electricity may electrocute him and kill him, whereas an engineer can be an accountant because accounting does not electrocute like electricity does, and this has led to the frustration of many employees in the financial department, because they feel that their work does not receive the attention of their bosses, and plays no role in decision-making. Additionally, the failure of the state in fulfilling its promise to support the private sector has also created a state of mistrust in the state.

7. Conclusions

This paper has described Libya’s historic background, in order to develop an understanding of how they have shaped the country’s development, and in particular, the way accounting is practised.

Situated as it is in the Middle East, as a former Italian colony, now an Islamic nation under a Socialist government, Libya has a centrally planned political system. Having once been a Western-oriented capitalist country, it has gone through a period of being strongly nationalist and socialist under the leadership of Gathafi. During this period, while benefiting from booming oil revenues, the government exercised a heavy hand in implementing its own ideologically driven economic development plans. Accounting played no significant role in implementing these plans, with accounting education sidelined and the influence of the accounting profession negligible.

Under the influence of the World Bank and the United Nations, Libya is now entering the global economic stage, endeavouring to broaden its economic base beyond oil, and responding to pressures to privatize its industry. This new policy contradicts what has gone before, yet must be introduced into the present bureaucratic infrastructure, the product of earlier cultural factors which are likely to provide a challenge to this process. As greater reliance is placed on accounting, professional and legal networks will be challenged in delivering the kind of accounting that is required to run companies for profit.

Accounting is an information system that is vital in the proper management of any modern economy, for no significant level of economic activity is sustainable without a formal system of accounting. Similarly, accounting clearly has a role to play in economic development, though, as with any other information system, its usefulness depends on its ability to generate reliable and relevant information for decision-making. Furthermore, for accounting to have any significant impact on economic development, those involved in the economic decision-making process must understand how to interpret the information generated by the accounting system.

As nations differ in terms of their cultural, economic, legal and political systems, so too do their financial and economic information needs. However, accounting systems in developing countries have been predominantly imported from developed countries, thus it is important to raise questions about their relevance to the information needs of developing countries, given the obvious differences between the socio-economic systems of developed and developing countries. The use of such accounting systems will inevitably limit the usefulness of the information generated by these systems in developing countries.

Accounting systems in most developing countries fail to reflect the environments within which they operate, do not begin to serve the needs of these countries supplying information for national economic planning and the subsequent review of such plans, and do not concern themselves in any meaningful way with the industries that are the economic back-bone of these countries. As a consequence, the potential role that accounting could play in the economic development of these countries remains unfulfilled.

In order to construct a system which will encourage accounting to achieve its potential contribution to economic development, it will be necessary for developing countries economic, social, political and legal environment. The importance of a suitable education, training and professional environment in order to ensure its successful implementation cannot be over-emphasized (Ndzingo and Briston 1999, pp 34-41). The Libyan government set up the IS for the purpose of supervising and controlling all industrial companies, irrespective of their ownership structure. The efficiency of this sector was recognized as being vital to Libya's economic development, and accounting's role in this process has been identified as important.

As previously stated, it is clear from the discussion that surrounding environmental factors have a huge impact on the use of accounting information. Restructuring within IS has produced confusion, lack of direction and has led to inefficiencies and ineffective implementation of government policies. This confusion has contributed to a lack of awareness of the role of accounting information. In addition, there has been a lack of qualified people. All these observations are borne out by the people interviewed within IS. Therefore, the problems of planning, failure to accomplish objectives and the ineffectiveness of accounting systems must not be dealt with within the sector's context alone. It is important to understand these problems within the context of the social, political and economic environments of the sector.

While this case is of one industry group within one country, and its generalisability is therefore limited, it raises interesting issues that are relevant both for other developing countries, and also for countries moving from a planned economy to a more capitalist oriented economy. Further studies on the use of accounting information in such countries will increase the focus on the importance of this issue, and on the historical and political factors that may impede the use of such information, and, in consequence, economic development.

8. References

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