FINANCING OF SMALL BUSINESSES IN THE LIBYAN ECONOMIC ENVIRONMENT

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Abstract

In many countries around the world small businesses are becoming a topic of major strategic importance, due to their role in revitalizing the economy and reducing unemployment. This heightened concern is significant, particularly; the countries that are seeking to diversify their economic base such as Libya. However, it is widely recognised that the small business sector faces more difficulties than large businesses in terms of accessing finance. The funding gap is one of the major problems facing the growth of small businesses in the different world's countries. This is due, in large part, to the nature, size and lack of guarantees and information about such businesses. The aim of this study, therefore, is designed to explore the funding of Libyan small businesses in terms of sources, uses, attitudes and constraints.

The investigation and interpretation of the opinions, attitudes and concepts of the participants was the target of this study. Therefore, a qualitative methodological approach was adopted for this essentially exploratory study. Thirty-two semi-structured interviews were conducted with two groups of participants. The first group included twenty-seven interviews with the owner-managers of small businesses. The second group included five interviews with senior lending managers in the main banks in Libya. The sample was selected from two cities of Libya, from Tripoli, which is considered the capital of Libya, and from Misurata, which is classified as the city of trade and industry in Libya.

The research yielded a number of interesting findings. The study suggested that the owner-managers of small business in Libya are heavily dependent on their savings, family and friends to fund their businesses at start-up. Retained earnings, family, trade credit and business partners were the main sources of funding in the expansion stage.

The research showed that the small business owners were seeking external funding for business expansion. A number of difficulties and constraints were highlighted in the raising of external finance, including lack of business planning and financial management skills, cultural factors, the absence of some institutional sources of funding, financial information, restrictions on bank lending, and aspects of government policy. Some of these difficulties were common to small business finances in many parts of the world; others were applicable to other countries in the North African region, while some were specific to the Libyan context.

The study concludes with a number of recommendations that need to be adopted by the owner-managers of small businesses and policy makers to help alleviate problems of the non-availability of finance to the small business sector. Given the importance of the issues that are highlighted, further research on similar and related issues is proposed.

Author's Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Signed .... Date ....

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List of Acronyms

APEC Asia-Pacific Economic Cooperation

CBL the Central Bank of Libya

COS Company and Operations Strategy

DTI Department of Trade and Industry UK

GDP Gross Domestic Product

IMF International Momentary Fund

L G PC Libyan General People Committee

LAFICO Libyan Arab Foreign Investment Company

NBE National Business Environment

NCB National Commercial Bank

OECD Organisation for Economic Co-operation and Development

SB Small Business

SBA Small Business Administration

SMEs Small and Medium-size Enterprises

WTO World Trade Organisation

Chapter 1: Introduction

1.1 Introduction

The governments of the majority of developed countries in the world came to understand during the later part of the twentieth century that small businesses had an important role to play in their economies. The Bolton report in the UK (Bolton, 1971) is widely attributed to have been one of the first significant attempts by a government to develop an informed view of the nature of the small business sector and its role in the economy. Since then, many researchers have demonstrated the significant role of small businesses in both developed and developing economies in combating unemployment and increasing the rate of economic growth.

Many researchers have discovered that countries can improve their economies through enhancing their small business sector (Gallagher & Stewart, 1984; Burns & Dewhurst, 1986; Dyson, 1990; University of Cambridge, 1992; Berry & Levy, 1994; Meyer, 1998; Cook & Nixson, 2000; Audretsch & Thurik, 2001; Asiedu & Freeman, 2006; Marcketti & Kozar, 2007; Bhaird & Lucey, 2009). They found that small businesses can play a vital role in terms of absorbing labour, generating income, and developing skills, alleviating poverty, increasing innovation and forming linkage between sectors which can be economically and geographically diverse.

The governments of developing countries also have recently understood the role this sector can play in improving their economies. Many researchers have advised developing countries to develop their small business sector in order to enhance their economies (Kapoor, 2004; Stephanou & Rodriguez, 2008). The case of Libya is interesting; it is a developing country, which has recently undergone dramatic change in its economy, moving from public ownership to privatization. The government established a Centre for Small Businesses in 2006, and decided to adopt a more liberal approach in order to improve its economy.

However, small businesses require appropriate funding to achieve their goals. It is generally acknowledged that small businesses can borrow money from banks or other lending institutions to increase their capital. Researchers have pointed out that small businesses may face more difficulties than large firms when seeking to borrow funds at start-up and subsequently to increase their capital. It has been proposed that this could be due to these firms' size, age and the nature on the one hand, or due to lack of collateral and financial information on the other (Bolton, 1971; Wilson Committee, 1979; Tannous & Sarkar, 1993; Warren & Hutchinson, 2000). Several researchers have added there are also behavioural reasons for the lack of access to external finance; this is largely due to owner-managers themselves who are often disinclined to surrender information or equity to outsiders, because they have the idea that this will lessen their control and independence of their business (Storey, 1994; Warren & Hutchinson, 2000).

The discussion above briefly explained some of the main roles played by small businesses in different world economies. It also highlighted the fact that the small business sector may face more financial difficulties than other sectors when attempting to obtain external funding. There will be a fuller discussion of the literature surrounding these issues in the next two chapters. This study aims to explore the financing of small businesses in Libya. The uses, attitudes and sources of finance, together with the constraints facing the Libyan small business sector in obtaining finance will be investigated in this study.

1.2 The importance of the small business sector

The relative importance of the small businesses sector varies greatly across countries, small businesses make important economic contributions, whether in developed or developing countries (Berger & Udell, 2005). Furthermore, small businesses in most of the developed and some of the developing countries play a key factor in the economic development agenda and strategy. Their role can be seen in many different areas in the economies of countries, these areas include: generation and distribution of income, absorption of labour, and alleviation of poverty. Most developed and developing countries support small businesses and economic development plans which aim to achieve high income distribution, reduce unemployment rates and promote the growth rate of the economy. In the past few years the effect of globalisation on small businesses has received substantial attention in international circles (Asiedu, and Freeman, 2006), because small businesses have made an important contribution to the economy of the developed and developing countries together.

While globalisation offers more opportunities for small businesses it is also considered as a source of threat. For instance, the hazard of instability of sales caused by increased global competition and the instability in exchange rates can be better absorbed by small businesses which adopt production technologies that allow them to adapt quickly to changes in market demand (Torres, 2002).

On the other hand, globalisation includes the integration of global markets and presents opportunities for exploiting scale. In addition, globalisation involves the removal of trade obstacles, creating new opportunities for all businesses, either small or large. As a result, growing competition in global markets perhaps has a negative impact on the survival rates of small businesses (Al-Kharusi, 2003). However, the next two parts of this section explain to what extent small businesses contribute in developed and developing economies.

1.2.1 Small businesses in the developed economy

Small businesses have been the subject of extensive research during the last four decades. Small businesses play an important role in different developed economies, for instance, in the European Economic Area there are about 21 million small and medium businesses (Lukacs, 2005). This has created more than 122 million jobs, providing about 66 percent of employment in the private sector, and contributing more than 57 percent of value added.

Small and medium sized firms account for more than 99% of all businesses in the European Union, 93% of which are micro-businesses (0-9 workers), 6% are small firms (10-49 workers), 0.08% are medium firms and only 0.02% are large firms (Lukacs, 2005, p.6).

Micro and small businesses (0 to 49 employees) made up 99 per cent of the total and it is widely stated that small and micro-businesses have a conclusive role to fulfil in innovation of new ideas within the UK (DTI, 2006). Moreover, in the UK there are more than 4.3 million businesses, which mean there is one business for every ten people of working age (Barrett and Burgess, 2008). Small and micro businesses in the United Kingdom have contributed significantly to the introduction of almost 44 per cent of new jobs and 37 per cent of turnover (DTI, 2003).

In the Netherlands the vast majority of businesses are categorised as small and medium-sized, whereas just 0.8% of businesses are large (OECD, 2005). There were in 2003 almost 768,000 businesses, 99.2 percent of which were classified as SMEs.

In Austria more than 99% of manufacturing and service sectors were categorised as small businesses, providing employment for about 65 percent of the labour force (OECD, 2005). Moreover, the number of small businesses increased by more than 11% between 1995 and 2005, and the number of their workers by more than 8%. In recent years the number of business start-ups has risen. According to the OECD report (2005) Austria has the highest survival rate of newly established businesses, with more than 82% of enterprises still being active after three years. Furthermore, in Austria 72% of new businesses remain active after five years because a variety of start-up initiatives by the government, as well as changing economic conditions, have fostered the trend towards self-employment (OECD, 2005). In Germany, small businesses play a main role in economic development; in 2005 the population of these businesses being estimated at 3.4 million. More than 99% of these were small and medium-sized; these were responsible for almost 70% of all jobs (OECD, 2005).

Korea has almost 3 million businesses, More than 99 percent of which are small and medium-sized enterprises (fewer than 300 workers) and 2.6 million businesses are micro, providing more than 5 million jobs (OECD, 2005).

In the United States, small businesses play an effective role in leading the economy. Small firms in the USA in 2003 accounted for almost half of the private work force (SBA, 2004*;* OECD, 2005). Between 2000 and 2001 small businesses created about 1.15 million new jobs in the USA. On the other hand, large businesses lost more than 151, 000 jobs (OECD, 2005). In 2006 in the USA 99 % of businesses were SMEs. The number of small and medium firms in 2006 was estimated at 26 million; employing approximately 50% of all private sector workers, responsible for over 70% of the workforce, and representing almost 97% of exporting enterprises (Asiedu & Freeman, 2006; Marcketti & Kozar, 2007).

The Canadian small businesses sector at the end of the last century increased rapidly their share of outward foreign direct investment and exports in the many Asian countries and in the OECD countries (OECD, 1996). As Canada’s economy becomes more interrelated with investment patterns, and global trade, small businesses are effectively becoming significant pillars of Canada’s economy (Acs, Morck, & Yeumg, 2000). Moreover, firms must be innovative and able to hold on to income opportunities, if they are looking for success in the global market (Acs et al., 2000). In addition, in Canada in 2004 there were more than two million businesses; approximately 1.3 million of these had fewer than 10 workers, while the other million are divided as follows: more than 99.5 percent were classified as small and medium –sized businesses (fewer than 500 workers), and only 0.5 percent were classified as large firms (OECD, 2005). According to OECD (2005) small and medium sized businesses in 2004 had approximately 65 percent of Canada’s private sector payroll employment.

In the Australian economy small businesses play an integral role by contributing almost 70% of GDP; it is also responsible for more than 50% of total private sector jobs (non-agricultural)

(Holmes & Gibson, 2001). Moreover, in 2001 the number of small and medium sized businesses accounted for more than 1.16 million (fewer than 200 workers), 1.12 million businesses were categorised as small (fewer than 20) workers. Small and medium sized businesses in Japan play a key role in the economy. In 2001 the number of SMEs was estimated at 4.7 million and accounted for almost 99 percent of all businesses (non primary sector) (OECD, 2005). SMEs employ more than 30 million workers, which mean they are responsible for more than 70% of all jobs (Lukacs, 2005).

1.2.2 Small businesses in developing economies

In recent years, the governments of developing countries have become increasingly interested in the small business sector, as is the case in developed countries. In East Asia small businesses play a major role in the exporting industry, accounting for almost 56% of all businesses (OECD, 2002). For example, in 2000, in the whole of the organization of Asia-Pacific Economic Cooperation (APEC) countries, small firms accounted for approximately 49 million businesses and employed a work force of 300 million (APEC Report, 2002). Moreover, small firms make up over 98 percent of all firms, representing over 60 percent of the private sector workforce. Small businesses in the APEC countries generate almost 50 percent of value added or sales, and 30 percent of direct exports. Additionally, small enterprises have slow growth, approximately 0.7 percent during 1990 to 2000 (APEC Report, 2002).

The number of businesses in Thailand increased from 844,562 in 1997 to 1,645,530 businesses in 2002. More than 99% of these businesses were SMEs (Kapoor, 2004). According to some researchers small businesses in Hong Kong present the greatest example of a success story in terms of market orientation and global competitiveness, compared with the other countries (Kee & Sing, 1986; Al-Kharusi, 2003).

In China, small businesses constitute more than 95% of the total of industrial firms with independent accounting systems and their share in industrial output is approximately 59% of total gross industrial output value and more than 56% of total sales revenue. Furthermore, small firms in China play an important role in stabilizing society. During the period from 1978 to 1996 there were more than 230 million workers who moved from rural areas to urban areas (Al-Kharusi, 2003).

In Brazil 99% of all businesses fall into the micro and small categories, which are considered responsible for creating almost 60% of all jobs (Al-Kharusi, 2003). Small businesses in Colombia in 2005 accounted for more than 30% of all jobs, divided in the ratio of 59-22-19 percent between service sectors, commerce and industry respectively. In contrast, in 2004 there were 57,000 registered as small firms based on their asset size (81% of this number was classified as small firms). However, the Colombian informal economy was responsible for almost 44 % of GDP (Stephanou & Rodriguez, 2008).

The small business sector also plays an important role in Arab countries. For example, in Egypt 99% of all private economic institutions (non-agricultural) are small businesses, and employ about 70% of the work force. SMEs produced approximately 80 percent of the aggregate added value (Alasrag, 2009). In the United Arab Emirates (UAE) small businesses account for about 95% of all businesses, create more than 60 percent of the work force, and contribute almost 75 percent of the GDP. Moreover, in Kuwait small businesses represent nearly 90 percent of the private sector work force, and are responsible for more than 90 percent of all jobs (Alasrag, 2009).

In the Libyan economy the Centre for Small Businesses was recently established. The exact number of the small business population is still unknown, but the Ministry of Trade and Economy in 2006 estimated the number of small businesses in Libya at 180,000, including medium-sized businesses. However, some Libyan officials believe that there are many other unofficial or informal businesses, as smaller businesses often operate outside the formal economy to avoid taxation and other fiscal and regulatory considerations (Porter & Yergin, 2006).

1.3 The importance of the study of small business funding

In recent years the topic of financing of small business has created much interest, whether from economists or policymakers (Beck, Demirguc-Kunt & Martinez, 2008a; Heenetigala & Armstrong, 2010). There are two main factors driving this increased concern. Firstly, small businesses have a very significant share in terms of overall job creation and economic development in countries throughout the world. Secondly, a lack of access to finance and financial constraints is considered one of the important obstacles to small business growth (Beck et al., 2008a).

Arguably, the most important challenge facing small businesses in the pursuit of survival and growth in both developed and developing countries is obtaining finance, as they often face great difficulty in obtaining debt or equity funding (Malhotra, Alberto, Qimiao, Iva, & Yevgeniya, 2006; Nichter & Goldmark, 2008).

A study conducted by the World Bank discovered that about 90% of the small businesses surveyed mentioned that credit was a major obstacle for new investment (Parker, Riopelle, & Steel, 1995). In 2000 Cook and Nixson, surveyed the literature on finance for small businesses. The authors found that the majority of extant research on small firms was concerned with developed countries, while there was much less literature concerning developing countries. Furthermore, a critical review of this body of knowledge has found that a substantial number of research studies are based on library research and that while numerous empirical investigations have been carried out on small firms in developed countries such as, the UK, the USA, Germany, Canada, etc., quite limited research work has been done on small firms in developing countries (Cook & Nixson, 2000).

Whereas all businesses, whether small or large, need funding the ability to obtain credit varies from one business to another, and across the sectors in which they work (Ahmed, 1987; Cavalluzzo, Cavalluzzo, & Wolken 1999, Columba, Gambacorta & Mistrulli, 2009). However, finance is the main concern for firms whether small, medium or large. Small businesses which are working in growth industries may require more credit to face initial capital investment and expansion. The capacity of firms to obtain finance will vary widely, depending on the perceived risk of the loan. Small businesses may represent a higher risk than large companies, due to a lack of a credit history, and they have substantially higher failure rates than mature companies (Ahmed, 1987; Cavalluzzo et al., 1999; Al-Kharusi, 2003).

Abor and Biekpe (2007) concluded that the problem of finance has been classified as a major reason why firms in developing economies fail to develop or to grow. Furthermore, it is necessary for businesses in developing countries to be able to fund their firms and of course grow over time. In addition, it is imperative for small firms to play a rising and predominant role in providing income in terms of profits and job creation, and increasing the wealth of households (Abor & Biekpe, 2007).

However, suppliers of finance such as investors, venture capital institutions and banks have been reluctant to lend to small businesses, because small businesses are regarded as high risk borrowers as they have low capitalization, insufficient assets and high failure rates. Furthermore, a lack of adequate financial statements, accounting records and business plans cause more difficulties for investors and creditors in making financing decisions (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Beck et al., 2008a).

In addition, for the reasons above, many small businesses feel they will be refused if they apply for loans from banks or any other institution, that is why most small businesses resort to traditional sources of finance such as personal savings, borrowing from relatives and friends, or firm-retained profits (Schiffer &Weder, 2001; Beck et al., 2005; Beck et al., 2008a).

1.4 The importance of the study

In Libya, small businesses have recently earned government recognition. For many years it was closed to the world economy due to a UN embargo. However the Libyan government has recently understood how this sector can contribute to reduce unemployment and poverty within the country, in particular the Libyan government seeks to diversify its income sources. It started to make its economy more liberal and advised people to establish small businesses in an attempt to support the private sector and of course to enhance its economy. Several decisions were taken by the Libyan government to improve and support the small business sector, when it established the Centre for Small Business in Libya in 2006, and started to privatize many small businesses in Libya. The Libyan financial sector has also made some improvements when the government decided to integrate some banks and allowed for some other banks to become private. More recently, it allowed for people to establish private insurance companies and also introduced a new decision to allow for foreign financial institutions to invest in Libya.

The significance of this study can be seen from these perspectives:

a) It is one of the first studies at this academic level in Libya concerned with funding the small business sector.

b) Through researching the experiences of both small business owners and lending officers, it provides a more complete picture about the funding of small businesses in Libya.

c) It contributes to the understanding of researchers and policy makers the current situation regarding the funding of the small business sector in Libya.

d) It identifies issues related to funding and the growth of small businesses.

e) It also provides guidelines for further research in the field.

1.5 Research aim and questions

It has been noted that the small business sector has a significant contribution in the economies of many of the countries in the world. There are also many financial constraints that face growth within this sector, particularly in developing countries, due to lack of funding sources. The Libyan government has recently acknowledged the importance of the small business sector to its economy. Given these facts, and against this topical background, this study's research aim and questions will be as follows:

Research aim:

It aims to explore the funding of Libyan small businesses in terms of sources, uses, attitudes and constraints, and to make tentative policy recommendations.

Research questions:

There are four research questions associated with the research aim which are:

- How are small businesses in Libya financed?
- What difficulties and constraints do small business owner-managers in Libya face with regard to raising finance?
- To what extent do Libyan owner-managers of small businesses use financial information in making financing decisions?
- What forms of small business finance and support would be appropriate to support Libyan economic development?

1.6 The structure of this thesis

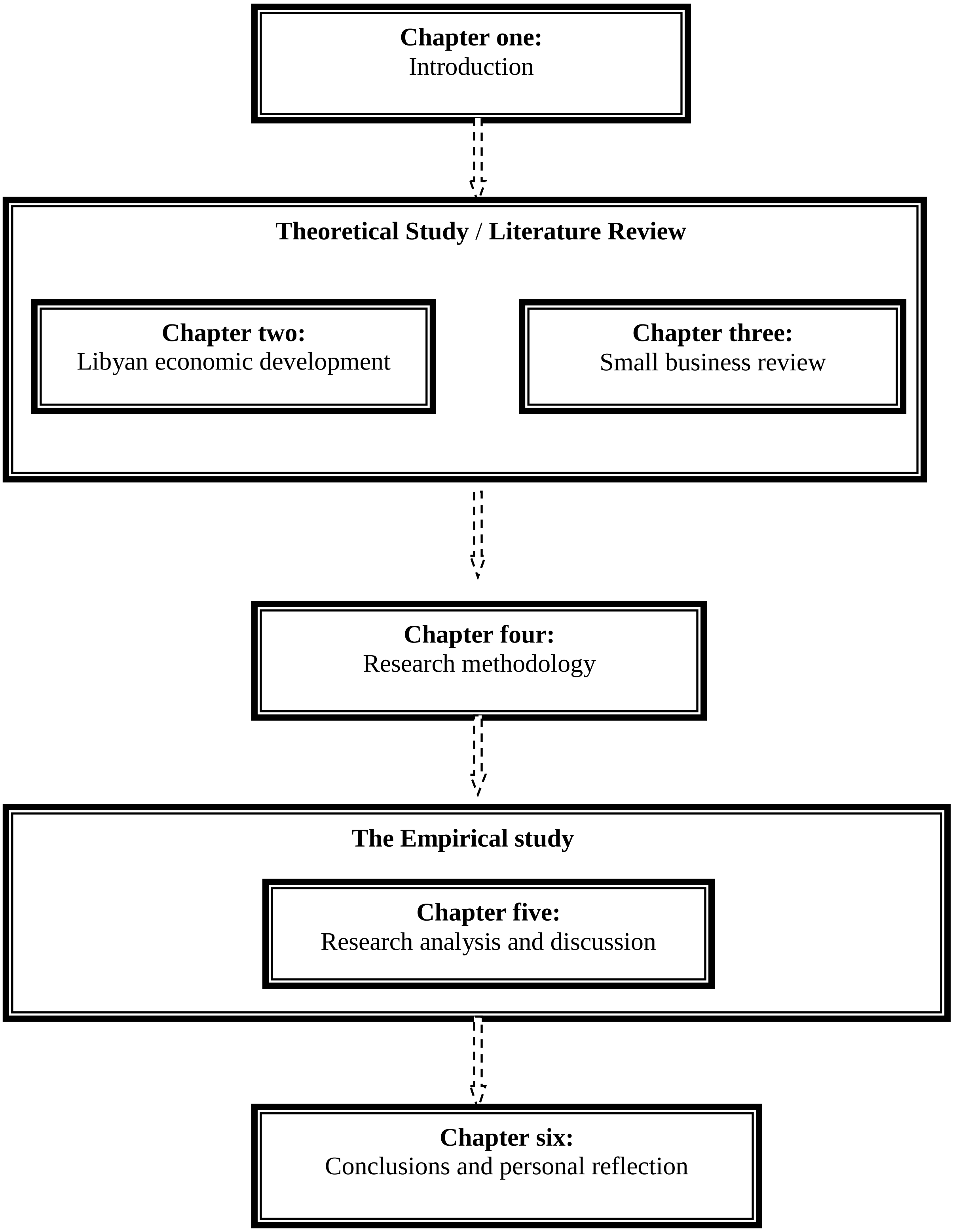
This thesis is divided into six chapters, as illustrated in figure 1. Following this introduction are two chapters that together comprise the Literature Review. Chapter Two is designed to introduce an overview of the Libyan economy and its historical development. It also makes special reference to the Libyan financial sector and the Libyan small business sector.

Chapter Three provides a review of the literature with regard to the small business sector, in seven sections. The first section mainly concerned with definitional issues, whilst the second section is concerned with the characteristics of small businesses. The third section focuses on the owner-managers of small businesses. Sources of finance, both internal and external, are dealt with in section four. Section five is concerned with firm growth and the constraints arising from access to finance. The sixth section is designed to investigate other, related factors affecting small business growth, while the seventh section provides a conclusion to the chapter.

Chapter four provides a discussion of the methodological issues raised by the research focus, aim and context of the study. The underlying philosophical issues are discussed and the research strategy and methodological approach are justified in the context of alternatives. This chapter also explains how the samples were selected and how the data were collected analysed.

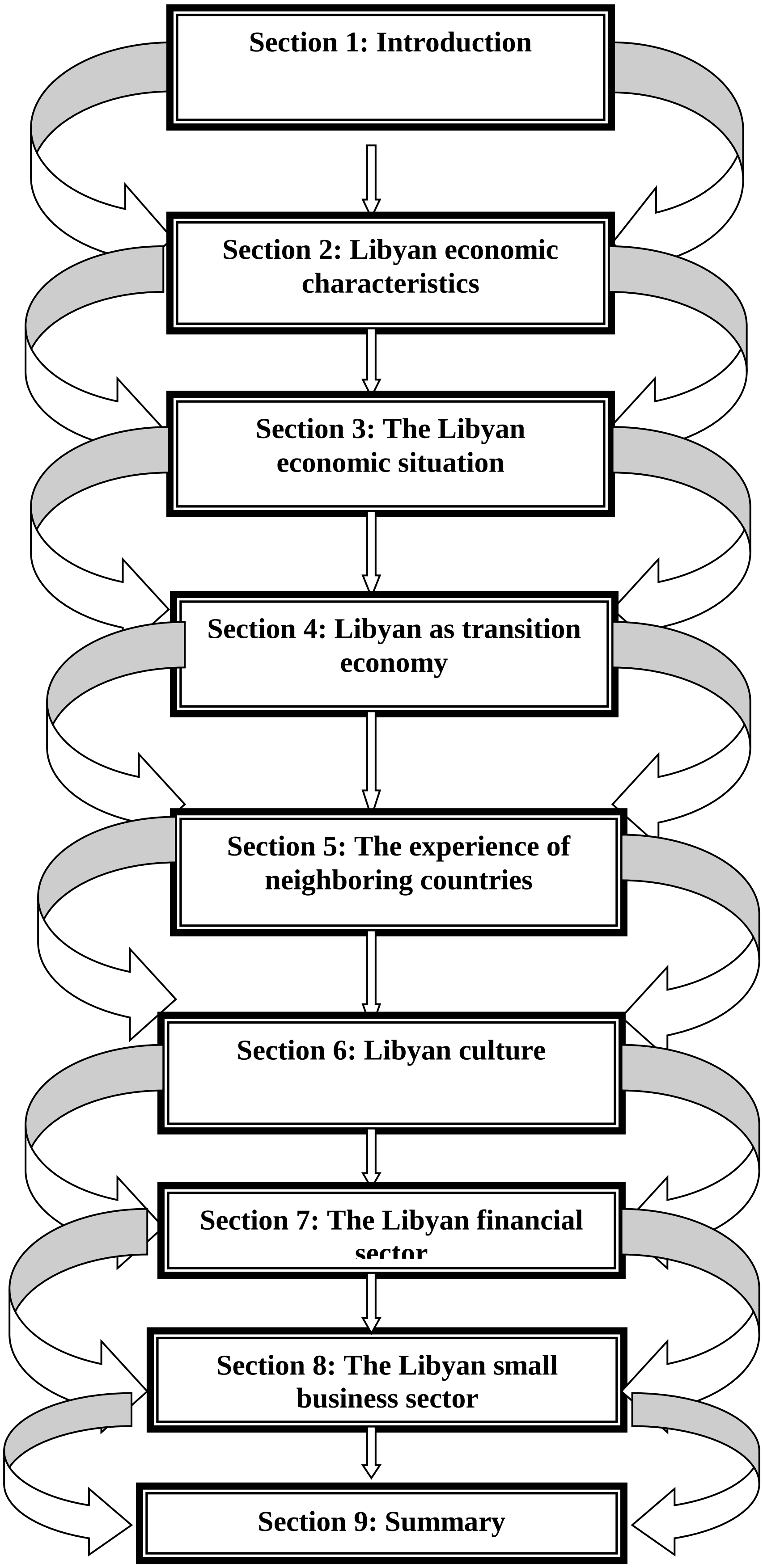
Chapter Five is designed to report and discuss the findings that arose from the empirical study and the subsequent analysis. The findings are discussed in depth and in the context of the Literature Review. The conclusions that are generated from the key findings are introduced and critically discussed in Chapter Six. In this chapter, the contributions to knowledge are highlighted and contextualized, as are the limitations of the study; recommendations and made for future research and finally a personal reflection made on the experience of conducting the research presented in this thesis.

Figure 1: Structure of the thesis



Chapter 2: Libyan Economy Development

Figure 2: Structure of the chapter 2



2.1 Introduction

Libya is one of the Arabic states in North Africa which occupies a strategic geographic location. It links East and West Africa, and Southern Europe with the rest of Central and Southern Africa. It occupies nearly 678,400 square miles (1,760,000 square km) and has more than 1,000 miles (1,610 km) of Mediterranean Coastline of North Africa (Buferna, 2005). Figure 4 illustrates the Libyan location on the map.

Figure 3: Map of Libya

A large part of the south of Libya consists of desert. In 2006 the population accounted for more than six million people. Most of them live in the coastal cities such as Tripoli, Azawia, Misurata, and Benghazi. The Arabic language and Islamic religion are the main elements which characterise the Libyan culture (Buferna, 2005).

2.2 Libyan economic characteristics

The Libyan economy, following Colonel Gaddafi's revolution of 1969, changed from a capitalist to a socialist model when the government cut back the private sector and expanded the public sector. Consequently, during the 1980s, most businesses in Libya became owned by the state. Furthermore, the state dominated all banking and insurance services and manufacturing until the late 1980s, when the Libyan government decided to become a more open and liberal regime. During the 1990s, some private businesses emerged in Libya, but, in that same period, Libya became isolated from the world economy due to UN sanctions. The economic blockade continued until 2003, when the UN lifted it. This brief history shows that the private business sector in Libya is in its infancy (see 2.3.1), as the vast majority of small businesses in Libya were established during the 1990s and the 2000s.

As the Libyan government has only allowed investors to establish private business since the late 1980s, the Libyan private sector is both new and small compared with other Arab countries. One reason for this delayed development is the availability of capital. Another reason is the bureaucracy associated with government involvement. Small businesses, particularly in the fields of trade and manufacturing, were widely affected by bureaucracy, because the Libyan government imported all goods and raw materials on behalf of private businesses.

The United Nations report in 2001, classified Libya as a medium-developed country. This report ranked Libya 59th out of 162 countries in terms of human development (UN, 2002). In addition the same organisation in 2003 ranked Libya in the same field of study as 61st out of 175 and 64th out of 159 in 2004 (UN, 2006). Table 1 illustrates the Libyan per capita incomes and other economic indicators in the years between 1970 and 2008.

Table 1: Key economic and monetary indicators in Libya

Year		1970	1980	1990	2000	2004	2005	2008
Population (thousands)		1,963	3,246	4,844	5,095	5,409	5,490	5,829
G.D.P in M.LD (at current prices)		1,288	10,554	7,750	17,775	48,105	66,450	105,728
G.D.P in M.U.S.$		3,601	35,556	27,319	33,126	39,678	44,087	50,225
Per capita income (L.D.)		656	3,251	1,600	5,247	7,218	7,923	8,615
Per capita income (M.U.S.$)		1,834	10,953	5,640	3,437	8,760	11,922	18,136
Exchange Rate	L D. / 1 U.S. $	2.796	3.369	3.525	0.769	0.763	0.738	.723
	L D./ £1	1.170	1.448	1.978	0.417	0.430	0.428	.419

Sources: Central Bank of Libya (CBL, 2006, 2009)

This table shows the rapid increase of the per capita income until 1980 when it reached its peak. Then it dropped in 1990 due to the fall of the oil prices in the late 1980's, as well as the embargo imposed on Libya from 1993 onwards.

2.2.1 The dependence on oil and drive for diversification

The main five characteristics of the Libyan economy are:

- The Libyan economy is heavily dependent on the exports of oil for state revenue; more than 96 percent of exports are from the oil sector (see Table 2& 3).
- The Libyan private sector is relatively small and the tradition of strong public sector ownership of the means of production is a main driving force in the domestic economy.
- The natural resources except hydrocarbons are limited and the natural water supply is scarce.

- The domestic labour force is limited and is constrained by the government system, culture and social mores (CBL, 2006).

Table 2: Trade balance (in million Libyan dinars)

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

Sources: Central Bank of Libya (2006)

Table 3: Libya gross domestic products by sector (%)

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

Sources: Central Bank of Libya (2006)

The Libyan economy is heavily dependent upon oil revenue and remains largely state controlled and regulated. In Libya in 2006, the share of non- hydrocarbon GDP (in total) was estimated at 26 % (Porter & Yergin, 2006). In other words, it is an economy based on selling natural resources rather than creating other services or products through innovation or investment.

The Libyan government has recently understood that they must act to encourage the development of other sectors, products and services with which to sustain the national economy. The small business sector has been promoted by the government, as the most productive element of the economy with the potential to contribute towards a high percentage of the country's GDP in the future. Small business plays a key role in economic development, and in developing countries. It offers opportunities for job creation, poverty reduction and establishes the foundation for trading between nations (Porter & Yergin, 2006).

Having provided a discussion of the steps were taken by the Libyan government to improve the Libyan economy and the characteristics of the Libyan economy, the next section is designed to provide a historical discussion about the Libyan economy development.

2.3 The Libyan economic situation (historical overview)

This section is designed to provide an overview of Libyan economic development from independence in 1951 until the date of this study. This historical period is divided into four distinct phases; each one of these is reflecting the salient features of economic growth in Libya. The first period is the economic situation from independence until the discovery of oil in 1959. The second period is from the discovery of oil which was in 1959 until Colonel Gaddafi’s revolution in 1969. The third period is from 1969 until 1987, when the Libyan government began to move towards a more open economy; and the current period which started in 1987 and has been characterised by economic reforms.

2.3.1 The Libyan economic situation before 1959 (Before the discovery of oil)

Libya was one of the poorest countries in the world before the discovery of oil in 1959 (El Fathaly, Palmer, & Ckackerian, 1977). The people were engaged in animal husbandry and agriculture. The Italian colonization controlled all the large enterprises in the country. The colonial economy in Libya did not create domestic financial, capitalist, commercial or agriculture firms that had a close economic relationship with the colonial powers as in contrast to neighbouring countries such as Egypt, Tunisia or Algeria (Buferna, 2005).

Furthermore, most of the industry which was established before 1959 focused on the processing of the local agricultural products such as flour, tobacco, textiles, footwear and clothing.

The country's economy was heavily dependent on a few small industries and a limited productivity of a primitive agricultural sector. In addition, most of the money in that period was as aid from the UN and from other organisations that helped the country to overcome the economically severe years of the fifties and from the American and British for the use of military bases in Libya (Buferna, 2005).

2.3.2 The economic situation from 1959 until 1969

After the discovery of oil in 1959 the Libyan economic situation changed and there was an inflow of foreign capital. In addition the international oil companies began to invest in Libya and the need for direct foreign subsidies declined. The investment in the oil industry brought surplus in the Libyan economy in general. Furthermore, before 1969 the Libyan economic system was completely capitalist, and private ownership existed with minimum governmental interference. The public ownership was only in sectors that required large-scale investment.

In that period the Libyan government delivered some laws to organise the economic system of the country such as, importing and exporting laws. The Real Estate and Industrial Bank of

Libya was responsible for providing loans for the Libyan people to build local industries. The Libyan economy changed from a gross national deficit to a surplus nation from the discovery of oil (Abusnina & Shameya, 1993).

2.3.3 The Libyan economic situation from 1969 until 1987

Following Gaddafi's revolution in 1969 the Libyan economy changed from a capitalist to a socialist nation. The government started to expand the public sector and cut back the private sector. In addition, the state intervention in the economy increased. In the 1970's a state ownership structure of business was initiated. Furthermore, in the late 1970's and early 1980's most business in Libya became owned by the state. The state dominated all foreign and domestic retail trade, banking, insurance services and manufacturing (Buferna, 2005).

2.3.4 The Libyan economic situation after 1987 (economic reforms)

During the 1980s the Libyan economy faced more difficulties due to the economic conditions and the slump in the world oil prices. Regarding this crisis the Libyan government in 1987 began to move towards a more open and liberal regime. Some private companies emerged and started to operate in Libya in the 1990's. In addition, many businesses were returned to the private sector. The recognition of these facts by the Libyan government has led to a number of reforms to encourage investment in products and services. This section will focus on discussing the reforms that were recently performed by the Libyan government to improve its economy.

Recently, the Libyan government has introduced a series of reforms in order to restructure the economic sector. These reforms have been introduced in order to expand the base of ownership and allow the private sector to participate in the economic activities.

In the late 1990's and the early 2000's the Libyan government issued a number of statutes to attempt to regulate the economy of the state. The first statutes were started by unification of the exchange rates, which stopped the informal market and smuggling of foreign currency. In addition, in order to facilitate the process of export and import licences for individuals the government cancelled most of the requirements.

These reforms led to an improvement in the role of banks in economic activities and an increase in the scale of their commercial operations. Furthermore, in 2005 the Libyan government lifted all duties (except cigarettes) and replaced them with a service import tax of just 4 percent. To encourage the local and foreign companies to invest their capital in Libya, the Libyan parliament introduced and amended some laws such as:

> Law number 9/ 2000 to regulate the transit of commerce and free zones.

> Law number 21/2001 for practice of economic activities for individuals and public companies.

> Law number 7/ 2003 as amended to the law number 5 in 1997 for encouragement of foreign capital investment in Libya.

> Law number 1/2005 concerning banking regulation.

> Law number 2/2005 concerning combating money laundering.

In addition, the General Peoples Committee introduced some economic regulations such as:

> Decision number 2/2002 for organising the import and export sector.

> Decision number 21/2002 for organizing of foreign capital investment.

> Decision number 8/2005 for organizing the opening of representatives' offices for foreign companies in Libya.

> Decision number 6/2008 for reorganization of the national program for small and medium-sized firms (L.G.P.C, 2009).

However, the Libyan General Peoples Committee issued decisions for the transfer of ownership of government projects to employees. For example, in 2003 the Libyan government announced its intention to privatise 360 projects in the industrial and agricultural sectors (see table 4). Furthermore, this transfer process was executed during three stages. The first stage included 260 factories which were to be transferred from the public sector to the private sector immediately. The second stage includes 46 factories which were to be privatised by the end of June 2007.

Table 4: the Libyan privatised factories

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

Source: The Libyan General Peoples Committee decision no 313/2003

In addition, the factories in this stage were transformed into shareholding companies in which employees and others are able to own shares. The last stage was aimed to privatise 54 factories during the period 2007/2008. Furthermore, in 2003 the Libyan government introduced a decision number 313 to exempt these privatised institutions from tax income, export taxes for five years. During the grace period, these factories were able to import equipment and raw materials needed for their production without paying any fees. This had a limited impact on the development of finance in Libya.

2.4 Libya as a transition economy

In formerly planned transition economies of the former Libya, small businesses did not have much attention from the academics or policy makers until the mid 2000s.

Drnovsek (2004) pointed out that the attention to the development of the small business sector in transition countries has risen due to the role of this sector in reducing poverty and unemployment. The identification of problems or conditions facing such businesses in this situation has been defined as one way to monitor the overall health of the private small business sector and the government's commitment to reforms targeting the sector (Bohatá & Mládek, 1999). Studying such problems and conditions will assist policy makers in identifying the kinds of assistance and skills that firms may require in order to grow the business. In addition, a failure to respond to problems or crises at each stage of development will constrain growth (Doern, 2008).

According to Otman and Karlberg, (2007), one of the main problems faced the Central and Eastern Europe countries during reforming their economic systems was the privatization of the massive amount of productive assets that was owned by the public sector. It was the crucial factor in the transition from a centralized to market economy. Furthermore, the problem is that when these countries sold the huge number of firms that owned by the state, as previously implemented by Western countries such as UK for example, many citizens in post-communities countries were unable or had no funds to buy shares or firms. A few number of citizens were able to do so were thought to have acquired them illegally (Otman and Karlberg, 2007).

A solution to solve the problem was suggested by the Polish government (Otman and Karlberg, 2007). However, this solution was first adopted by Mongolia and Czechoslovakia before spreading throughout the East European countries. The new solution involved the use of vouchers, distributed by the reformist government for free or for a small fee, to all adults, and the voucher often could be exchanged in special auctions for shares or firms being privatized in private investment funds in order to put together a diversified portfolio of minority holdings. It was financial assistance from a number of organisations such as World Bank, the European Union, and also from a number of bilateral donors, that widely contributed to overcome many technical and administrative obstacles to the implementation of voucher programmes (Otman & Karlberg, 2007). The main stages of the process of privatization were portfolio analysis, corporatization of the firms, integrating a number of firms into one main company, voucher distribution, underpinned by decisions in terms of employee ownership, creation of investment funds, auction, and ownership allocation (Otman & Karlberg, 2007). The key advantages of using voucher schemes in mass privatization is that it assured political acceptability by giving ownership to the public. It also constitutes a good way of developing a capital market with a broad base of investors in countries with an incipient entrepreneurial sector (Otman & Karlberg, 2007). The same authors noted that the mass privatization should be applied only when political acceptability is a major constraint. The private sector is poorly developed as an entrepreneurial group, and the costs clearly offset the benefits that can easily result in a financial, economic, and political failure.

Having reviewed the situation of the Libyan economy, the next section is designed to discuss the experience of neighbour countries in the economy reforming.

2.5 The experience of neighbouring countries

This section highlights the experience of some neighbouring countries that had started to reform their economies some years ago, namely Algeria and Tunisia. Both countries share with Libya some main factors such as religion, social culture, climate, government structure, etc. Given the lack of published research about Libya, a brief review of some aspects of these countries are particularly valuable.

2.5.1 The experience of Algeria

Algeria is one of the North African countries that border Libya to the west, to the south of Tunisia. This neighbouring country has similarities with Libya in a number of important dimensions such as religion, culture, government structure, etc. Moreover, Algeria like Libya is an oil producing country. It started to reform its economy almost at the same time as Libya, in the late 1980s.

The major difference between Libya and Algeria is the size of the population, with that of Algerian estimated at 35 million, compared with that of Libya population at 6 million people (Schwab, 2010). Furthermore, Libya had been under sanctions by the UN, whilst Algeria had not.

According to Otman and Karlberg, (2007) like Libya, the Algerian government has enacted a number of legislative changes in order to reform its economy. The majority of the sectors became private by the end of 1990s. In 2001 the Algerian government launched a 3-year plan in order to encourage economic growth. Many attempts were taken by the government in order to enhance its economy such as supporting people to establish a new private business during 1996 to 1998. The number of new private businesses has been estimated at 1,050. Some of these businesses were established through spin-off and others were through sale of the assets to employees and managers. This number of enterprises was responsible the creation of more than 25,000 jobs (Otman & Karlberg, 2007).

However, although the Algerian government started the process of market liberalization and the main targets of the Algerian government were the privatization of the enterprises that still owned by the state and reform of the financial sector including the introduction of international banks, the fact remains that the combination of poor evaluation practices applied to state-owned enterprises and the persistent lack of transparency in the privatization process have impeded its progress (Otman & Karlberg, 2007).

According to Schwab (2010) the most problematic factors for doing business in Algeria are inefficient government bureaucracy, access to financing, corruption, inadequately educated workforce, policy instability, inadequate supply of infrastructure, poor work ethic in the national labour force, foreign currency regulation, tax rates and tax regulation.

2.5.2 The experience of Tunisia

Tunisia is a smaller Arab country in North Africa located between Libya and Algeria. There are multiple similarities between Libya and Tunisia in terms of economic choices, state-society interaction and past and present political orientation. The main economic difference between Libya and Tunisia is that the Libyan economy is heavily dependent on oil income, whereas the Tunisian economy is dependent on other sources such as tourism, manufacturing and agriculture. According to Otman and Karlberg, (2007) there is serious progress in Tunisia in terms of privatization. They attributed this progress to the interaction between the central government and extra-state actors who were stakeholders in the privatization process, which was the major agent of reform. It seems to be the involvement of the Tunisian government by devising and pushing the privatization program widely to increase the chance of success. This success was a result of reducing the role of other stakeholders in the privatization process, such as public sector managers, the bureaucracy, labour unions, private sector investors and political parties (Otman & Karlberg, ,2007).

However, although this progress occurred in the Tunisian economy, the global competitiveness report (2010-2011) pointed out that the Tunisian business environment still faces some problems. The report added that the most problematic factors for doing business in Tunisia are: access to finance, restrictive labour regulations, inefficient government bureaucracy, foreign currency regulations, inadequately educated workforce, poor work ethic in national labour force, inadequate supply of infrastructure, tax rates, tax regulation and corruption (Schwab, 2010).

2.6 Libyan Culture

Libya is located between several other Arab countries - Egypt, Sudan, Tunisia and Algeria- with which it shares common cultural and social values, religion and language. The Islamic religion plays an important role in Libyan culture (Vandewalle, 2006). The most powerful influence on Libyan society historically was that exerted by religion; ever since Islam and the Arabs came to Libya in 642 AD, Islamic religion has played a very important role. “Islam significantly affects the structure, values and attitudes of Libyan society. It is a primary unit of loyalty and identity (Obeidi, 1996, p. 38)." Twati (2006) pointed out that in Libyan society religion covers social and political aspects of the principles and behaviour of the people. Islamic religion calls for respect of people in the place of work and governs social relations at work. It also encourages people to build successful communication between staff, whether inside or outside the work (Yousef, 2001).

Social relationships are considered one of the special characteristics of Arabic culture. Thus, Libyan people come from different tribes and families and also have strong social ties; however, culture also has a broad impact on the Libyan economic environment (Twati, 2006). For example, Libyan managers often avoid accepting advice, opinions or any feedback from their subordinate workers. In this society, feedback, advice or update of superiors is prohibited on the part of subordinates. Consequently, in Libya, centralised management and centralised decisions are a common trait of organisations (Twati, 2006).

Twati (2006) studied the influence of social and organisational culture on the adoption of management information systems in the Arab world. The author found that Libyan culture still shows the characteristics that were indicated by Hofstede in 1980, in particular high power distance, masculinity and uncertainty avoidance.

Unlike Western societies, but as in most Arab countries, Libyan traditional social institutions such as the family and tribe still play a significant role in political and economic culture. There are a number of significant characteristics of the Arab family. First, the Arab family is a central socio-economic unit. Barakat (1993) illustrated this as the basic unit of production and the centre of Arab social organisation and socio-economic activities. These family businesses evolved into a pyramidally hierarchical (particularly with respect to age and gender), and extended institution. Therefore, it has been the basic unit of social organisation in both traditional and contemporary Arab society.

Recently, with the state beginning to provide more extensive services for society, the family has faced a number of challenges. It still, however, plays a crucial role in education and in the socialisation of its members. It remains the main basis of most of social and cultural values, including religion and social heritage (Obeidi, 1996). In Libya the extended family is the basic social unit, and the head of the extended family defines the strategy and important decisions about the future such as welfare provision, education and business. According to Obeidi (1996), in Arabic countries the family is considered a central socio-economic unit. Barakat (1993) summarised the position of family in the Arabic countries as follows:

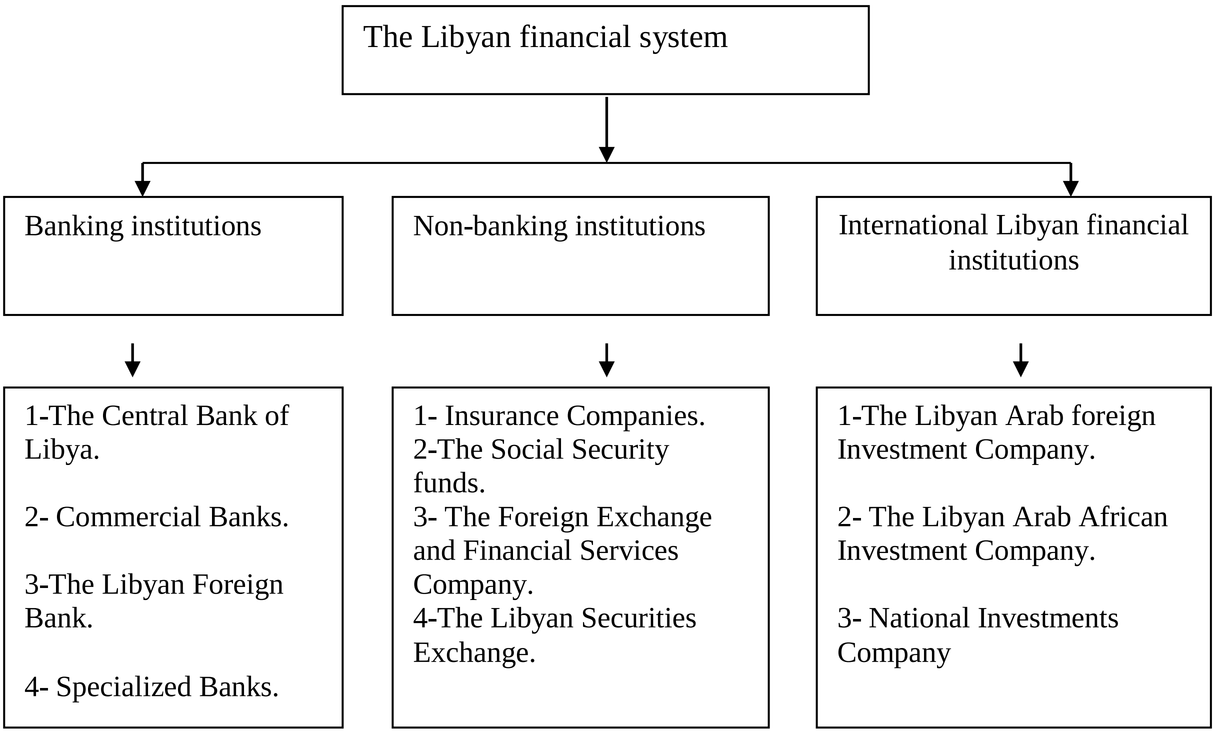
"It is the basic unit of production and the centre of Arab social organisation and socioeconomic activities. It evolved into a patriarchal, pyramidally hierarchical (particularly with respect to sex and age), and extended institution (p: 97)".

Obeidi (1996) pointed out that there is an inter-relationship between tribalism, tribal structure and religion in Libya, which together have played a vital role in socio-economic, culture and political development. The author added that Libya is considered one of the Arabic counties in which the tribal structure and tribalism as a social system still significantly affect its culture, political management and on the most of aspects of life.

2.7 The Libyan financial sector

Like a number of Arab and some of developing countries, Libya lacks an efficient and active financial market. The financial sector in Libya is divided into three sectors: the banking sector, the non-banking sector such as insurance companies and other financial institutions such as Libyan foreign investment companies. Figure 4 illustrates the structure of the Libyan financial sector.

Figure 4: Structure of the Libyan Financial sector



Source: The Central Bank of Libya (2006)

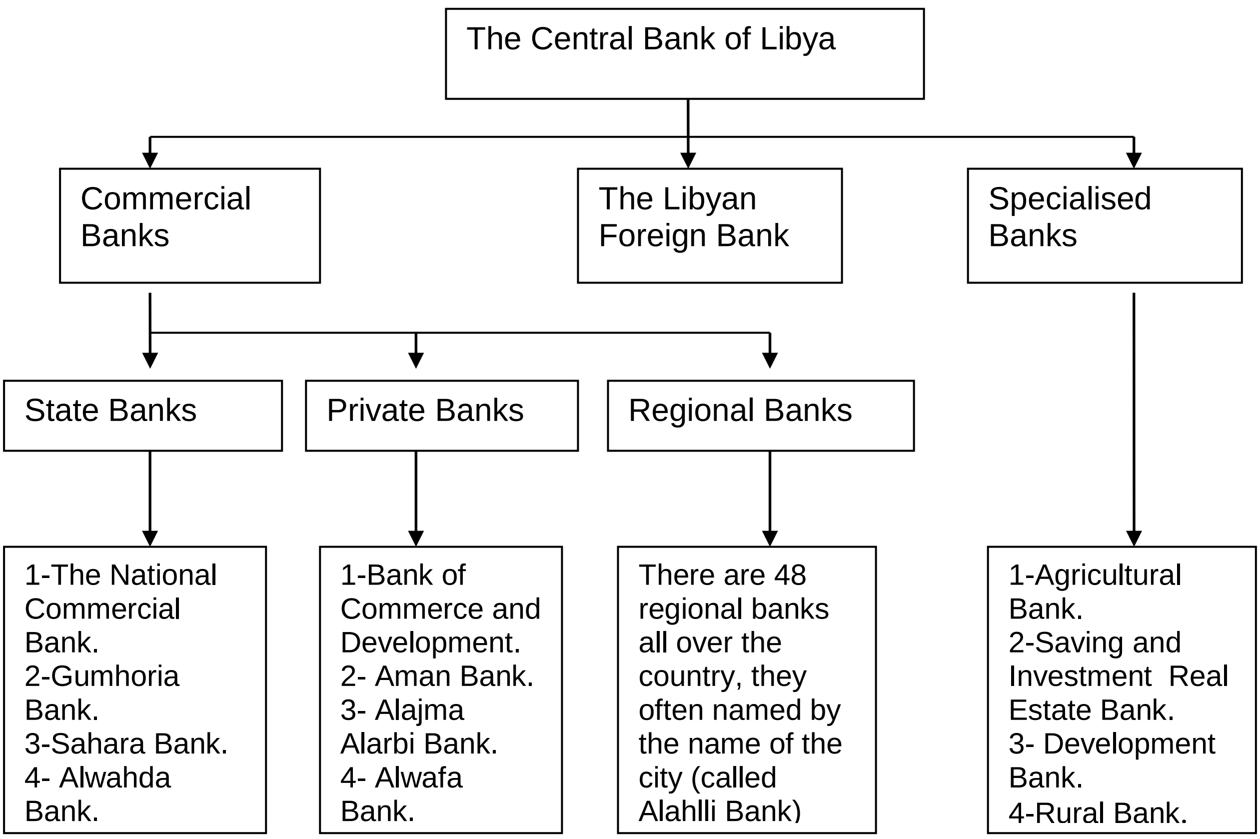
2.7.1 The Libyan banking and non-banking institutions

The banking sector includes the Central Bank, Commercial Banks and Specialized Banks. The Central Bank of Libya (CBL) was established in 1951. It is wholly owned by the state and is based in, the capital city of Libya (Tripoli). In addition, the bank has established three more branches in other cities: Sabha, Sirte and Banghazi.

Hermes and Lensink (2000) investigated the role of Central Banks in transition economies and stated that in developing economies, the Central Bank has two responsibilities. First, it is considered responsible for controlling, safeguarding and reform of the payment system in the state. Second, it aims to contribute to a stability of the banking system in the state.

In 2005 the Parliament of Libya introduced the law number 1/2005 concerning the banking sector and specified the function of the Central Bank as follows: issuing and regulating banknotes and coins; managing the official reserves of gold and foreign exchange; acting as a supervisor to the commercial banks; advising the state on the formulation and implementation of financial and economic policy, which is considered essential to promote international trade (WTO)… etc (CBL, 2006). Figure 5 illustrates the structure of the Libyan Banking Sector.

Figure 5: Structure of the Libyan Banking sector



Source: The Central Bank of Libya (2006)

In 2006 there were ten commercial banks in Libya. This number included five public banks (National Commercial Bank, Jamhoria Bank, Umma Bank, Sahara Bank and Alwahda Bank); four private banks (Alwafa Bank, Commerce and Development Bank, Aman Bank and Alajma Elarabi Bank); one mixed bank (Regional Banking Corporation); and also there are forty eight regional banks (CBL, 2006).

More recently, this number has been changed, because Sahara Bank became a private bank in 2007, and also Alwahda bank became a private bank in 2008. In addition, from the first of January 2009, the Jamhoria and Umma banks were integrated into one giant called Jamhoria Bank (CBL, 2009).

However, the Libyan banking sector is relatively new and small compared with the other Arab countries. For example, in Egypt, the government started to reform its banking sector in the 1970s, while the Libyan banking sector just started to be nationally controlled in 1970 and the Libya government only started to reform its banking sector in 2003 (Mohieldin & Naser 2007). In addition, whereas foreign banks have been investing in Egypt for decades there have been no foreign banks investing in Libya until recent years (Gait, 2009). Furthermore, although Libya is considered one of the Arab and Muslim countries and its people have only one religion (Islam), the Islamic banks are almost absent in the financial market. In contrast, in Egypt there have been more than eight Islamic banks established for many years.

The specialised banks include five banks wholly owned by the state which are:

>Agriculture Bank: established to provide finance and equipment to businesses engaged in livestock and agriculture activities, especially in the drought seasons.

>Libyan Foreign Bank: As an International Bank aims to deal with foreign banking operations.

> Development Bank: established to provide loans for enterprises in the industry, agriculture, and tourist sectors.

> Rural Bank: The aim of this bank is to improve the level of individuals' incomes (in rural areas).

> The Savings and Real Estate Investment Bank: established to provide loans for people to build or buy houses (Buferna, 2005). However, the absence of financial markets makes the banking sector shoulder a major responsibility for Libyan development.

Non-banking financial institutions include: Libyan Social Security Funds, the Libyan Stock Market (established in 2006 and with only 6 quoted companies), Foreign Exchange and Financial Services Company, only one public company for insurance(Libyan Insurance company) and three private insurance companies established during the 2000's (United Insurance Company, African Insurance Company and Sahara Insurance company). These institutions are not significant for small business finance because it was established to supply simple services for Libyan people.

2. 7.2 The Other financial institutions

Other financial institutions include three public investment companies (National Investments Company, Libyan Arab African Investment Company, and Libyan Arab Company for Foreign Investment, LAFICO) (CBL, 2006). LAFICO is concerned with investment outside of Libya. It was established in 1981 and is wholly owned by the state. It has investment in more than 45 countries in the world. It is investing in different areas of agriculture, industry, transportation, mining and fishing sectors. Fayad (2003) studied that and stated that the LAFICO is considered as a source of foreign exchange, and also as a source of hard currency loans for some companies in Libya.

Having discussed the Libyan financial sector in the section, the next section will provide discussion about the Libyan small business sector.

2.8 The Libyan small business sector

"The majority of Libyan companies currently compete on price, rather than through product differentiation. However their cost position does not really support this strategy. They face strong competition from genuine low cost suppliers from Asia, especially in the construction sector and in consumer goods. In reality, the 'competitiveness' of many Libyan companies is often built on personal networks which allow them to win contracts (Porter & Yergin, 2006: *p.46)".*

The Libyan government has recently become interested in the small business sector, when it established a Centre for Small Businesses in 2006. The Libyan small businesses sector is widely dependent on personal and family networks. The exact size of the small business sector in Libya is unknown. The number of private businesses on the other hand is officially registered with the Libyan tax authorities' and adds up to 180,000 small businesses including medium-sized enterprises (Porter & Yergin, 2006). Senior Libyan government officials thought that there were a huge number of small businesses unregistered with the Libyan government. They also thought that most small businesses in Libya conduct their business outside the formal economy in order to avoid taxation and other fiscal and regulatory considerations (Porter & Yergin, 2006). However, the General People's Committee in Libya (2006) classified businesses using the number of employees and capital as follows: micro and small firms with fewer than 26 employees, with an aggregate of capital not exceeding 2.5 MLYD, medium–sized firms (26 to 50 employees) with an aggregate of capital not exceeding 5 MLYD, large firms which have more than 50 employees (Salem, 2006).

According to the Company and Operations Strategy (COS) ranking, Libya ranks as 107th of the 111 countries analysed in terms of business sophistication (see figure 6). Porter and Yergin (2006) identify some of the key contributory factors as lack of sophistication in production processes, insufficient employee training, low company spending on R&D, narrow international markets, and limited customer orientation and marketing.

Figure 6: Company Operations and Strategy ranking, Libya and selected countries

Country	COS Rank	Country	COS Rank
USA	1	Turkey	38
United Kingdom	6	Tunisia	46
Finland	9	China	53
Singapore	14	Egypt	58
Malaysia	24	Morocco	80
South Africa	26	**Libya[1]**	**107**
UAE	36	Algeria	108

Note: [1] Libya was not part of the 110 countries studied in the GCR 2005-06. Libya's BCI was estimated using data from the Libya Business Executive Survey and GCR 2005-06
Source: Global Competitiveness Report 2005-2006; Libya Business Executive Survey 2005; Monitor analysis

The National Business Environment (NBE) pointed out that the Libyan business environment requires significant improvement. The same organisation ranked the Libyan business environment as one of the lowest-ranked countries – 108th of the 111 countries (see figure 7) (Porter & Yergin, 2006).

Figure 7: National business environment ranking, Libya and selected countries

Country	NBE Rank	Country	NBE Rank
Finland	1	Tunisia	34
USA	2	Turkey	51
Singapore	5	China	58
United Kingdom	6	Egypt	74
Malaysia	23	Morocco	75
South Africa	30	Algeria	86
UAE	33	**Libya[1]**	**108**

Note: [1] Libya was not part of the 110 countries studied in the GCR 2005-06. Libya's BCI was estimated using data from the Libya Business Executive Survey and GCR 2005-06
Source: Global Competitiveness Report 2005-2006; Libya Business Executive Survey 2005; Monitor analysis

Despite several attempts made recently by the Libyan government to privatise the public sector institutions and to allow people to take a share in the national economy, as efforts to channel the Libyan economy towards a market economy, the quality of the financial services markets remains poor. Furthermore, equity markets scarcely exist and debt markets are crude. The Global Competitiveness Report 2008-2009 ranked Libya as the last country but one (133) in financial market sophistication and soundness of banks (see table 5) in a survey of 134 countries. In the same survey Libya ranked 131 on financing through local equity markets, 129 in regulation of securities exchanges, 126 in restriction on capital flows, and 83 on ease of access to loans. Venture capital availability is almost completely absent in the Libyan financial market, reflected in Libya being classified 115th of 134 countries on the availability of venture capital finance (Porter & Schwab, 2008).

Table 5: Financial market sophistication (with respect to Libya)

❖ Competitive Advantage ■ Competitive Disadvantage

	Criterion	Rank	
1	Financial market sophistication	133	■
2	Financing through local equity market	131	■
3	Ease of access to loans	83	■
4	Venture capital availability	115	■
5	Restriction on capital flows	126	■
6	Strength of investor protection	n/a	
7	Soundness of banks	133	■
8	Regulation of securities exchanges	129	■
9	Legal rights index	n/a	

Source: Porter & Schwab (2008-2009)

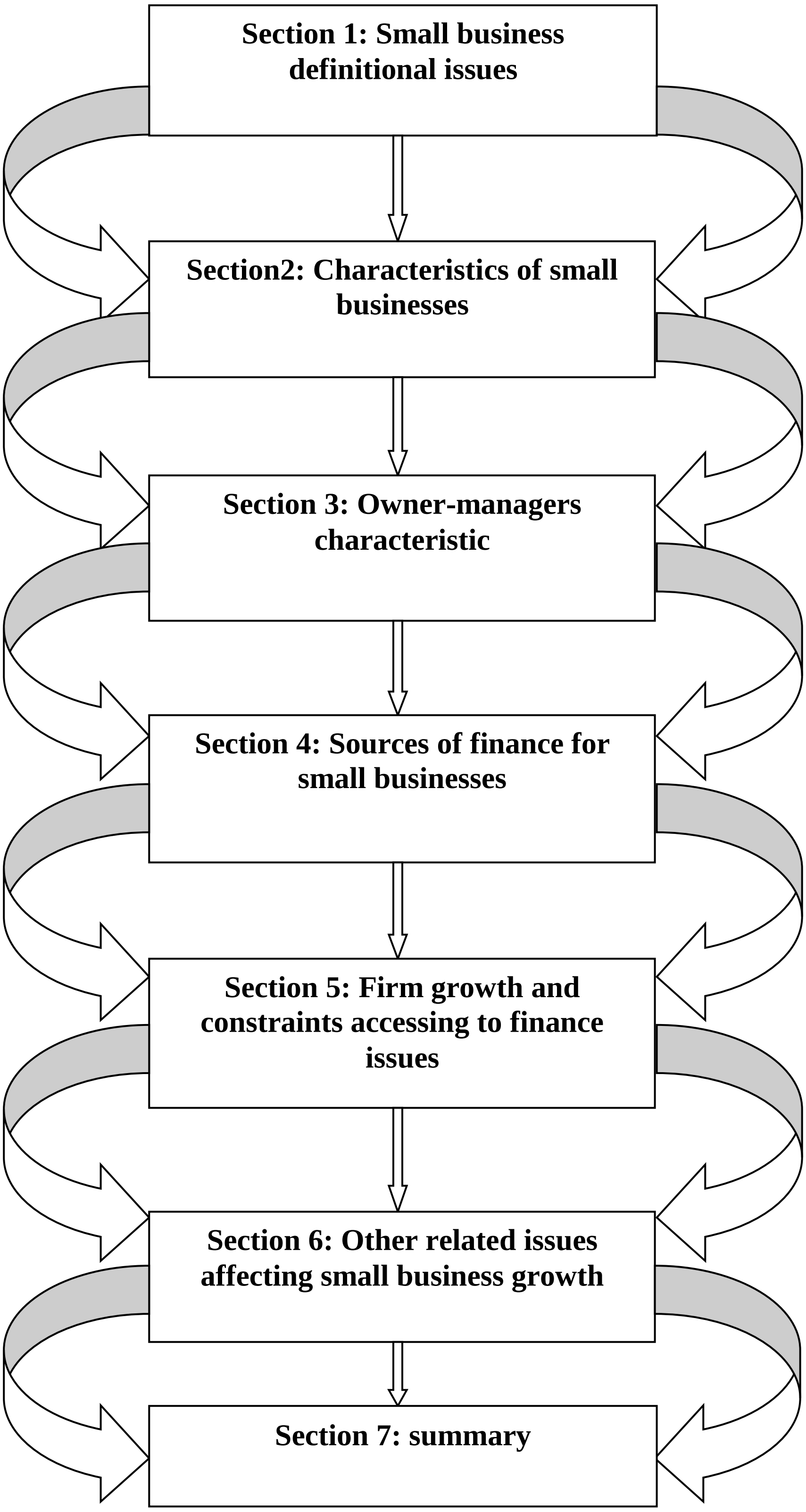
2.9 Summary

The characteristics and the developments of the Libyan economy and society have been discussed in this chapter. This chapter has illustrated the development of the Libyan economy since independence, in 1951, until the date of this study. The discussion has showed many changes which have happened in Libya during that period: the situation of the country before the discovery of oil; the period following the discovery of oil; after the revolution of 1969 until 1987, when policy emphasised public ownership, and after 1987 until the date of this study , when the government has returned again to privatisation. This chapter has also provided sensitive information about the structure of the Libyan financial market, the experience of neighbour countries Algeria and Tunisia. It has also provided information about Libyan culture and small business sector in Libya.

The objective of this chapter is to provide a context within which the study's findings are to be interpreted and understood. The next chapter is designed to investigate the literature of small firms and to discuss in depth particular topics which are related to the objectives of the study such as, small business definitional issues, characteristics of small businesses, small business funding issues, sources of finance, etc...

Chapter 3: Review of the Literature

Figure 8: Structure of chapter 3



3.1 Small business definitional issues

3.1.1 Introduction

Small businesses are a very diverse group of enterprises normally operating in trade, industry, agriculture and service sectors (Holmes & Gibson, 2001; Lukacs, 2005). Globally, this category includes firms such as small village craftsmen, food producers, small mechanical workshops, tourism enterprises and computer software companies etc. These all possess a wide variety of expertise and skills. A small business is often classified by criteria such as the number of employees, turnover or the value of assets. The basis of classification varies within regions and across countries in relation to the size of the economy (Lukacs, 2005).

McMahon, Holmes, Hutchinson and Forsaith (1993, p. 9) declared that to define small firms there is "*a vexing enduring difficulty*". The same authors pointed out that the small businesses are simpler to describe than to define in exact terms.

Storey, (1994); Holmes and Gibson, (2001); Wong and Aspinwall (2004); Stokes and Wilson (2010) found that one important issue is how to define small business clearly and how they can be differentiated from large firms.

Notwithstanding, this issue remains debatable, because there is no single definition which is always applicable to small businesses.

In defining small firms, writers and researchers have used many criteria. These are divided into two main types of definition, quantitative and qualitative, as discussed below.

3.1. 2 Quantitative definitions

Bolton (1971) established one of the first economic and statistical definitions, which included both qualitative and quantitative factors and also recognised that different sectors required defining criteria.

In the quantitative definitions the size of the business was decided according to selected criteria, for example, the number of employees, the annual turnover or the total assets but these varied across sectors. Table 6 summarised the Bolton statistical definitions as follows:

Table 6: Bolton statistical definitional criteria for a small business

Sector	Definition
Construction	25 employees or fewer
Manufacturing	200 employees or fewer
Retailing	Turnover of £50,000 or less
Mining and Quarrying	25 employees or fewer
Services	Turnover of £50,000 or less
Miscellaneous	Turnover of £50,000 or less
Road Transport	Five vehicles or fewer
Wholesale Trade	Turnover £200,000 or less
Motor Trades	Turnover of £100,000 or less
Catering	All excluding multiples & brewery managed houses

Source: Bolton report (1971)

Definitions of small business can be confusing in certain criteria. For instance, on the one hand there are some businesses which have a number of workers that may be considered small although they have high turnover. On the other hand definitions based on turnover alone, must be adjusted in terms of inflation. Curran and Blackburn (2000) explained that the number of employees, while being highly popular and very easy to use, needs some care when adopted.

Curran and Blackburn (2000) found that financial turnover is used as an alternative and also apparently attractive measure of size. Despite the number of employees being one of the most widely employed criteria, it needs to be used with some care, for instance, treating a part time worker as the equal of half a full time worker. Moreover, from country to country the number of employees used varies according to the objective of the definition. For example, one industry may define businesses as small but this does not mean that all other manufacturers have the same standard to define their small businesses (Curran & Blackburn, 2000).

Bolton in 1971 suggested that to be defined as small, the turnover of a retailing must not exceed £200,000. In the UK, the Companies Act of 1985 (DTI, 2004) classified the firm as small if it meets at least two of the following criteria:

- The annual turnover is not more than £2.8 m;
- The total of balance sheet is not more than £1.4 m;
- The number of employees is not more than 50.

However, Table 7 Summarised the UK SME definitions as following:

Table 7: UK definition of SMEs

Criteria	Small Firm	Medium Firm
Employees	Not exceed 50	Not exceed 250
Turnover	Not exceed £2.8	Not exceed £11.2m
Balance Sheet	Not exceed 1.4 Million pound	Not exceed 5.6 Million pound

(DTI, 2004)

According to the European Commission (EC, 2001) number of employees, balance sheet and turnover are used to define small firms. Medium –sized businesses should have between (49-250 employees), not more than 40 million Euros as turnover and the balance sheet not exceeding 27 million Euro. Small businesses should have between (9-50 employees), not more than 7 million Euro as turnover and the balance sheet not exceeding 5 million Euro, similarly micro businesses should have fewer than 10 employees, turnover and balance sheet not more than 2 million Euro. Table 8 summarised the European Commission definitions and criteria as following:

Table 8: European Commission definitions of SMEs

	Definition		
Criterion	Micro business	Small	Medium
Maximum number of employees	9 employees	49 employees	249 employees
Maximum annual turnover	2 m €	2- 10 m €	10-50 m €
Maximum annual balance sheet total	2 m €	2- 10 m €	10-43m €

(EC, 2001)

The criterion of number of employees is now widely accepted by researchers and policy-makers in defining the small business. The USA's Small Business Administration (SBA, 2003) classified businesses using the number of employees as following: Micro and Small (0 to 99 employees) Medium size (100 to 499 employees) and Large with more than 500 employees. In Japan small and medium enterprises are defined as those which employ fewer than 300 employees.

In Australia, businesses having up to 5 workers are categorized as micro, while businesses with fewer than 20 employees are considered small, and businesses with between 20 to 200 employees are classified as medium–sized (Trewin, 2000).

In Egypt businesses are categorised into three parts, small firms with fewer than 100 employees, medium size firms which have the number of employees between 100 and 299 and large firms with more than 300 employees (Magd and Curry, 2003). In Jordan, small businesses are classified as having between 4 to 10 workers and medium size businesses have between 10 to 25 workers (United Nation report, UN, 2001). Table 9 summarised the definitions of small businesses in some world countries.

Table 9: Small business definitions in different countries

Country	Number of Employees	Annual Turnover	Total assets
Canada	Fewer than 100	*	
Australia	Fewer than 20		
UK	Fewer than 50	*	*
USA	Fewer than 100	*	*
Indonesia	Depend on the sector	*	*
Hong Kong	Depend on the sector	*	*
EU	Fewer than 50		
Thailand	Not more 50		*
Jordan	Not more 10		
Egypt	Fewer than 100		
Libya	Fewer than 26		

(*) means it is used as a definition for small businesses as well.

Source: compiled by the author

The table above shows that there are multiple definitions in use by different world countries, which means that there is no single global definition used to define small businesses.

3.1.3 Qualitative definitions

The Bolton Report also recognised that small firms may be considered as differing qualitatively from larger ones, explaining that "*It becomes clear that small firms could not be adequately defined in terms of employment or assets, turnover, output or any other arbitrary single quantity, nor would the same definition be appropriate throughout the economy*" (Bolton, 1971, p.1).

Bolton (1971) concluded that there are three main defining qualitative characteristics of small firms. Firstly, small firms in economic terms have a relatively small share of the market. Secondly, a vital feature of a small business is that it is managed by its owner or part owners. Thirdly, the owner-managers of small businesses should be independent and free from external control when taking their decisions.

The report discussed this issue and defined a small business as an independent business which has a small share of the market in qualitative terms and is managed by part owners or owner.

The Beddall Committee report in Australia suggested a more inclusive definition of small businesses as one that manifests the following characteristics (Peacock, 2004):

- Owned and managed independently.
- Controlled closely by ownership.
- The owner-managers contribute most or all of the operating capital.
- The owner managers have the primary decision making function in the small businesses.

Libya can be considered slightly different to other countries, because it is a relatively wealthy country and it has small population compared with other countries in its region. Therefore, the General People's Committee in Libya (2006) separated businesses into categories using the number of employees and capital, as follow: Micro and small firms, with fewer than 26 employees, and with an aggregate of capital not exceeding LYD 2.5m. Medium–sized firms are defined as having 26 to 50 employees, with an aggregate of capital not exceeding LYD 5m. Large firms are those which have more than 50 employees. This seems to be suitable for a country size of Libya (Salem, 2006).

Having outlined some of the definitional issues around business, and particularly, small businesses in the different countries and areas in the world. The next section will focus on discussing characteristics of small businesses in terms of age and size of the businesses and business planning.

3.2 Characteristics of small businesses

3.2.1 Introduction

Having dealt with definition issues, small businesses characteristics are now considered. Many researchers have pointed out that the characteristics of firms and owner-managers are very important factors to take into account in research on the finance of small firms. They added that previous studies have often neglected these characteristics when researching this problem (University of Cambridge, 1996; Keeble, 1996; Liu & Hammitte, 1999; Al-Kharusi, 2003). There are some factors which will affect the financial decisions, such as the size and age of the firm; age of owner-manager; gender of owner manager and training, education and experience of owner-manager.

Gibrat's law in 1931 has determined two points as a useful theoretical benchmark for theoretical and empirical research in the growth of firms, summarized as follows: a) the size of the firm when starting-up has no effect on the rate of growth. b) In the same industry and in the specific time the probability of growth is given equally for any firm (Wagner, 1992; Lotti, Santarelli & Vivarelli, 1999).

Most of the empirical studies have rejected the assumption of the independence of firms' growth from age and size. The growth of a company is negatively and significantly related to the age and size. Moreover, most of the empirical studies on the determinants of growth of firms go beyond the study of the relationship between size, age and growth all together (Lotti et al, 1999). Bhaird and Lucey (2009) examined determinants of capital structure of 299 Irish small and medium –sized businesses. They found that age, size and ownership structure widely contributed to determining the capital structure in the small business sector (see 3.3).

3.2.2 Age of small business

The age of a business is widely used by researchers to compare the growth of firms. For example, Almus and Nerlinger in 1999 examined the small firms in Germany during a period of ten years. They found that the oldest companies have a smaller rate of growth than the youngest companies. Wijewadena and Tibbits in 1999 used data from Australian firms and found that the youngest firms grew more rapidly than the oldest. Furthermore, Glancey in 1998 in Scotland analysed 117 small manufacturing businesses and found that the growth of the business was closely related to the age of the firm.

3.2.3 Size of small business

The size of a business is also used widely by researchers as a factor to measure the growth of business. For instance, Evans in 1987 in the U.S A found that there was a significant negative relationship between the rate of growth and the size of firms- in other words, small firms tended to grow more quickly than large ones. Moreover, the largest companies had lower rates of growth compared with other companies. Phillips and Kirchhoff in 1989 in the U.S examined the relationship between size and growth rate of firms which start-up with five or more workers. They used a population of 814,000 businesses which started up between 1977 and 1978. The findings showed that the firms which started up with five workers had a higher rate of survival after six years than other firms which started with less than five workers.

Antoniou, Guney, and Paudyal, (2002) found that smaller firms may have more difficulties than large firms to access capital markets. They added that several studies indicated that smaller firms have a higher probability of bankruptcy than larger firms. Rajan and Zingales (1995) examined the relationship between the growth and size of a firm and stated:

"The effect of size on equilibrium leverage is more ambiguous. Larger firms tend to be more diversified and fail less often, so size... may be an inverse proxy for the probability of bankruptcy." (1995: 1451).

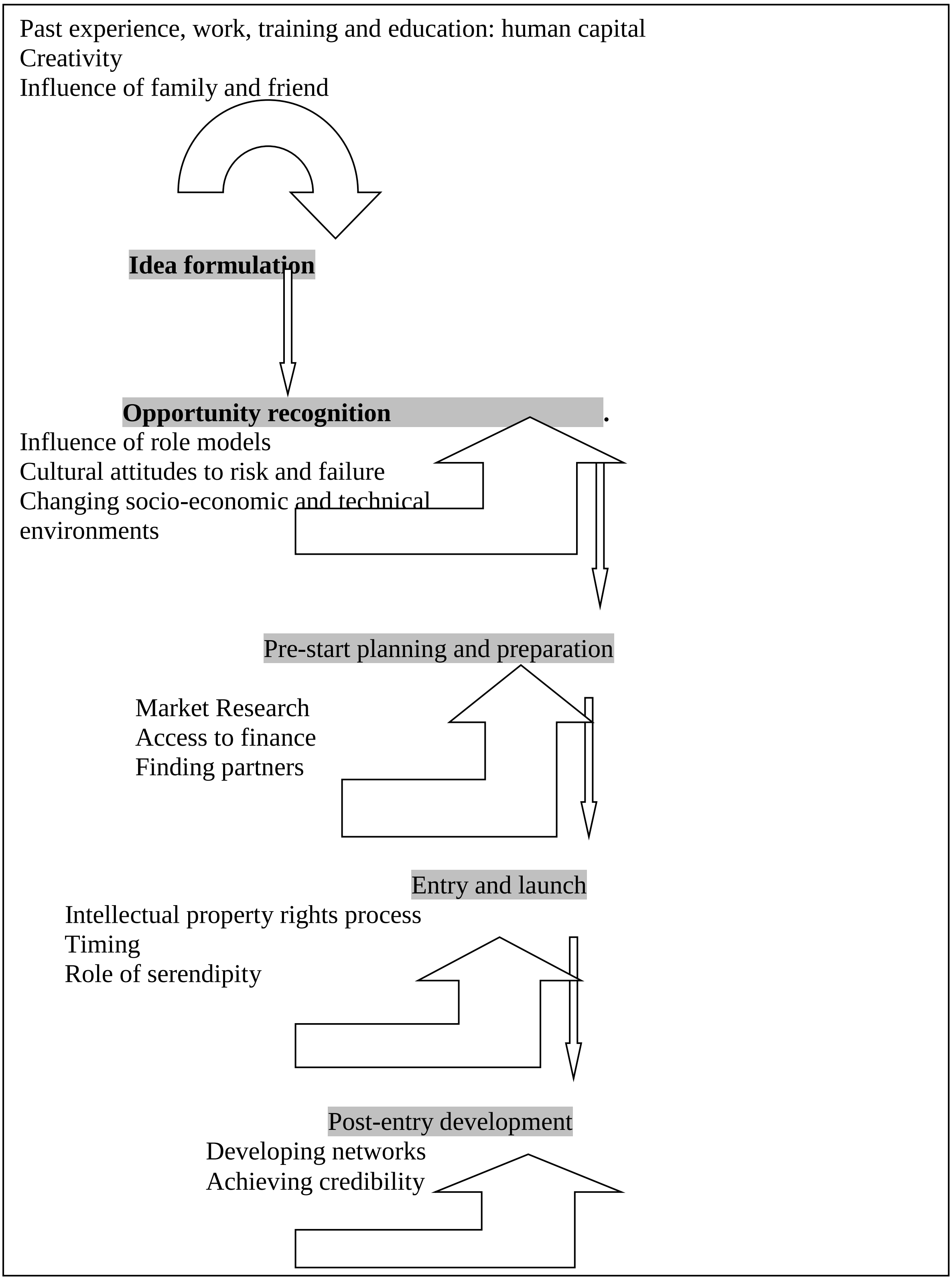
Al-Sakran (2001), Booth, Aivazian, Demirguc-Kunt, & Maksimovic, (2001), and Huang and Song (2002) studied the relationship between leverage ratios and firm size in developing countries, and they found a positive relationship.

Bevan and Danbolt (2002) mentioned that size is found to be positively related to long-term debt and negatively related to short-term debt. They added that large companies tend to hold more debt than small companies, because "being too big to fail" they have better opportunities to access the capital market than small firms. This situation might apply to Libya but information is difficult to find (see 1.5).

3.2.4 Business planning

Business planning is one of the important factors in business success (Kuratko & Hodgetts, 2004). Schwenk and Shrader (1993) found that there is a positive relationship between business planning and growth. Bridge, O'Neill, and Cromie, (1998) pointed out that there is a minority view which maintains that formal written planning may be unsuitable for the small business. In small businesses, external agencies such as banks, business angels and venture capitalists that provide funding for start up or expansion of the business, require business plans before any investment decision (Mason & Stark, 2004). Deakins & Freel (2003) proposed a different model for establishing and the start-up a business. Their work involves the process by which owners come to identify or formulate their ideas based on their education, previous experience and family influence. Then the culture and socio-economic environment are emphasised in their model as a key factor in recognising opportunities. They also illustrate that the role of networks and credibility as an important factor in establishing and managing successful business (see Figure 9). In the case of Libya, it is unclear whether this linkage of finance and business planning applies in Libya. This will be one of the issues explored in this research.

Figure 9: Business creation and the start-up process: a suggested paradigm



Source: Deakins & Freel (2003. p.57)

However, primarily qualitative evidence available to date proposes that business planning within small businesses is an activity of a minority; few small firms use strategic planning. In addition quantitative assessment of the popularity of business planning in small businesses appears to be lacking in the literature (Woods & Joyce, 2003). Richbell, Watts and Wardle, (2005) summarized a number of reasons for the lack of business planning as follows:

- Limited entrepreneurial experience and inadequate educational background of owner-managers makes them think and act intuitively.
- A Lack of formal planning may relate to a lack of financial information and business administration such as financial management, marketing management, and so on.
- A lack of formal planning may also relate to external factors, such as industrial development, economic growth cultural and historical background and government policy. It may also be due to the fact that small business are too busy surviving , and so do not take time out to plan.

Having discussed the characteristics of the small firms such as, size, age and business planning, the next section will discuss the characteristics of the owner-managers of small firms in terms of education and experience, age and gender.

3.3 Owner-manager characteristics

3.3.1 Introduction

The Bolton Report (1971) identified owner-management as an important defining feature of small firms. More broadly, the characteristics of owner-managers are often seen as critical to the development and activities of small businesses (Bolton, 1971). Bolton also noted that owner-managers of small and medium-sized businesses were heterogeneous in nature, adding, "when we come to look at the human and social factors affecting (small firms) we can see that firms are, in fact, as varied and individual as the men who founded them" (Bolton, 1971, p.22)

However, the influence of the qualities of owner-managers on their businesses is poorly researched (Richbell et al., 2005). Education, age and gender can be important influences in this study. Storey (1994) provided an overview of owner-managers' characteristics which are considered highly relevant in small business growth studies. Rajan and Zingales (2000) stated that given today's rapidly changing economic environment, the traditional vertically integrated pyramid-type company organization is not suitable. They added that the main reason for this is the specialized human capital and the knowledge of the current economy. This section will focus on the characteristics of owner-managers of small businesses that relate to this research, which are education and experience background, age and gender.

3.3.2 Education and experience

Mincer (1974) stated that education is the investment which creates higher income recompense in return for individual specialisation of skills, experience and training. Education has been studied as a variable, which has an important effect on owner-manager behaviour (Storey, Watson, & Wynarczyk, 1989). Human capital researchers assume that investment in education led to economic growth (Richbell et al., 2005). In terms of business planning, it might be expected that firms which are run by better educated owner-managers might be more likely to have business plans (Richbell et al., 2005). Many owners of small business are likely to have lack in information about markets and technology, and limited skills. They often depend on their accountants to know about these issues (Heenetigala & Armstrong, 2010). Smallbone and Welter (2001) pointed out that in transition economies, owners of small business need to upgrade their skills. They attribute this demand for training to a combination of prior experience and high levels of education in encouraging owner-managers to be outward looking. Owner-managers with limited education will tend to work without a business plan. In addition the experience and knowledge of management can have a positive effect on their businesses. As a general rule, human capital with higher education level, training and experience will be more active in business environment (Merritt, 1998; Petts, Hard, & O'hEocha, 1998). Petts et al., (1998) pointed out that the education and training plays a main role in small business development amount of start-up capital affects profit in higher technology businesses. They added that the owner-managers with limited level of education will tend to work without business plan.

3.3.3 Age of owner-manager

According to Peters, Cressy, and Storey (1999) younger people are less likely to become self-employed. Evans and Leighton (1989) reported that people who start a business are on average, in their mid-thirties years. Similarly, Storey (1994) found that the people typically starting a business tended to be between 25 and 40 years old. Reynolds, Hay and Camp (1999) noted that countries which have more people in the age range of 25-44 years have a high level of business start-ups. Evans and Leighton (1989) maintained that younger people will be negatively related to the level of self-employment.

However, Barkham, Gudgin, Hart, and Harvey (1996) reported that younger owners were more likely to manage their business more successfully.

Robb and Wolkon (2002) found that a significant age group among owner-managers between 35-55 years old. Firms owned by owner who has age between 35 and 55 are more likely to have loans than other firms. In addition owners between the ages of 35 and 55 were more able to borrow from banks and use trade credit. They also found that the older owners (above than 55) were more prone to the denial of their bank loan application.

3.3.4 Gender

Research has shown that women have different experiences to men and lower access rate when attempting to obtain loans (Coleman, 2000; Rosa, Hamilton, Carter, & Burns, 1994). Fay and Williams (1991) found that the bank lending managers were more likely to recommend a loan to male applicants than they were to women. The findings showed that the gender discrimination might also occur in terms of loan guarantees.

Coleman (2000) examined women-owned small businesses, and found that they were not able to access finance as readily as men, even where they were able to produce collateral. Robb and Wolken (2002) found that women were less able to use trade credit while men were. Fairlie and Robb (2008) found that small businesses owned by women have a smaller number of employees, sales and assets than small businesses owned by men. Robb and Coleman (2009) also found that women when starting-up their business used less financial capital than men. The same authors also found that women, to fund their business tended to be more heavily dependent on personal sources rather than external sources of debt.

Fairlie & Robb (2008) found that small businesses owned by females tended to have lower survival rates, sales, profits and employment. They also found that female business owners spent fewer hours working in their businesses than did males. In addition, they concluded that male-owned businesses were more successful than female-owned businesses because they had more start up capital opportunities, more previous work experience in a family business and more human capital acquired through previous work experience in a similar business (Fairlie & Robb, 2008). Robb & Wolkon (2002) also studied the differences between male- and female-owned small businesses. They found that female-owned businesses were younger, smaller and had more concentrated in terms of retail sales and services. They found that self-reported credit histories were similar for both, but female owned businesses were considered to have more credit risks than male owned businesses. They found that male-owned firms were more likely to have outstanding loans. Female-owned firms were less likely to use trade credit (particularly when borrowing from banks) and credit cards.

Whilst the gender issues are important, there is limited information about the specific situation in Libya.

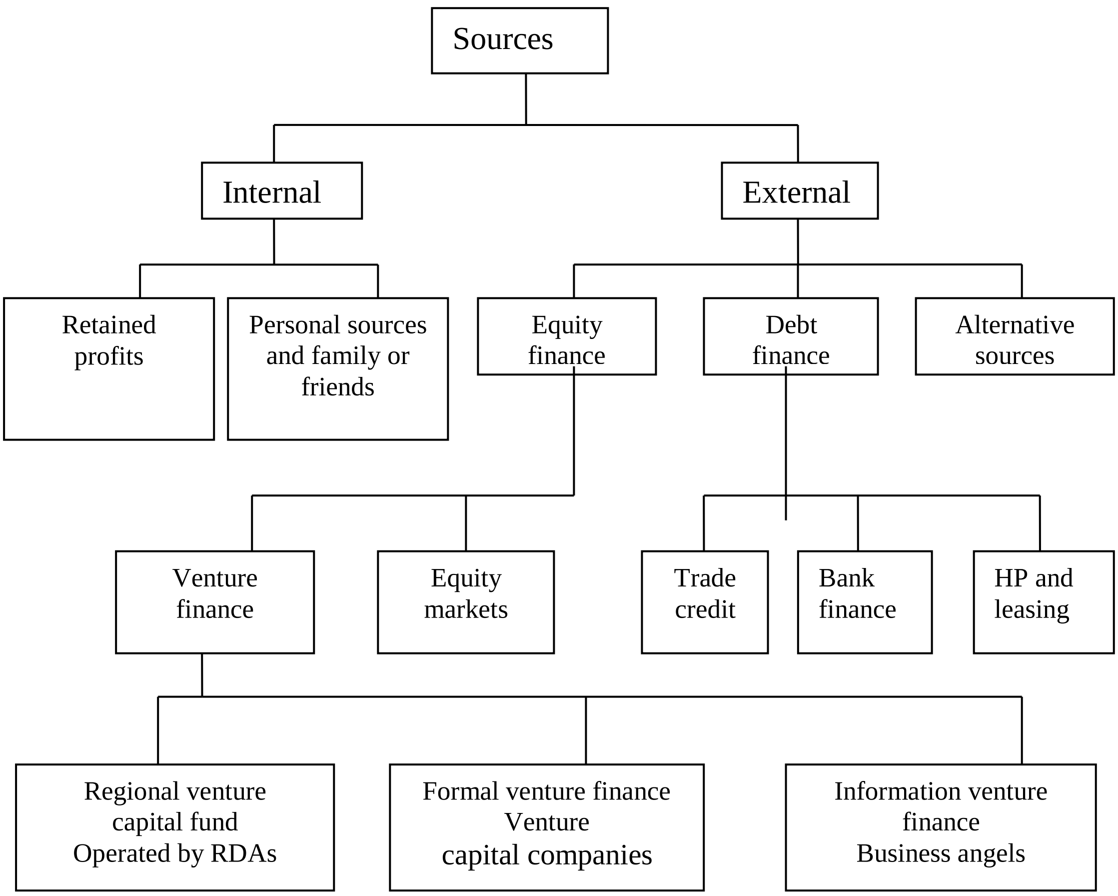
Having provided a discussion of the characteristics of the owner-managers of small business, namely experience and education, age and gender, the next section will discuss another important topic related to this study-source of funding, both internal and external. Reference will also be made to Islamic finance.

3.4 Sources of finance for small businesses

3.4.1 Introduction

There are a many sources of finance available to small businesses, at least in principle. Internal sources include retained earnings, personal savings, family finance, friends etc., while external sources include banks, venture capital agencies, government institutions etc (Deakins & Freel, 2003). Figure 10 below illustrates a range of sources of finance.

Figure 10: Sources of finance



Source: Deakins and Freel (2003)

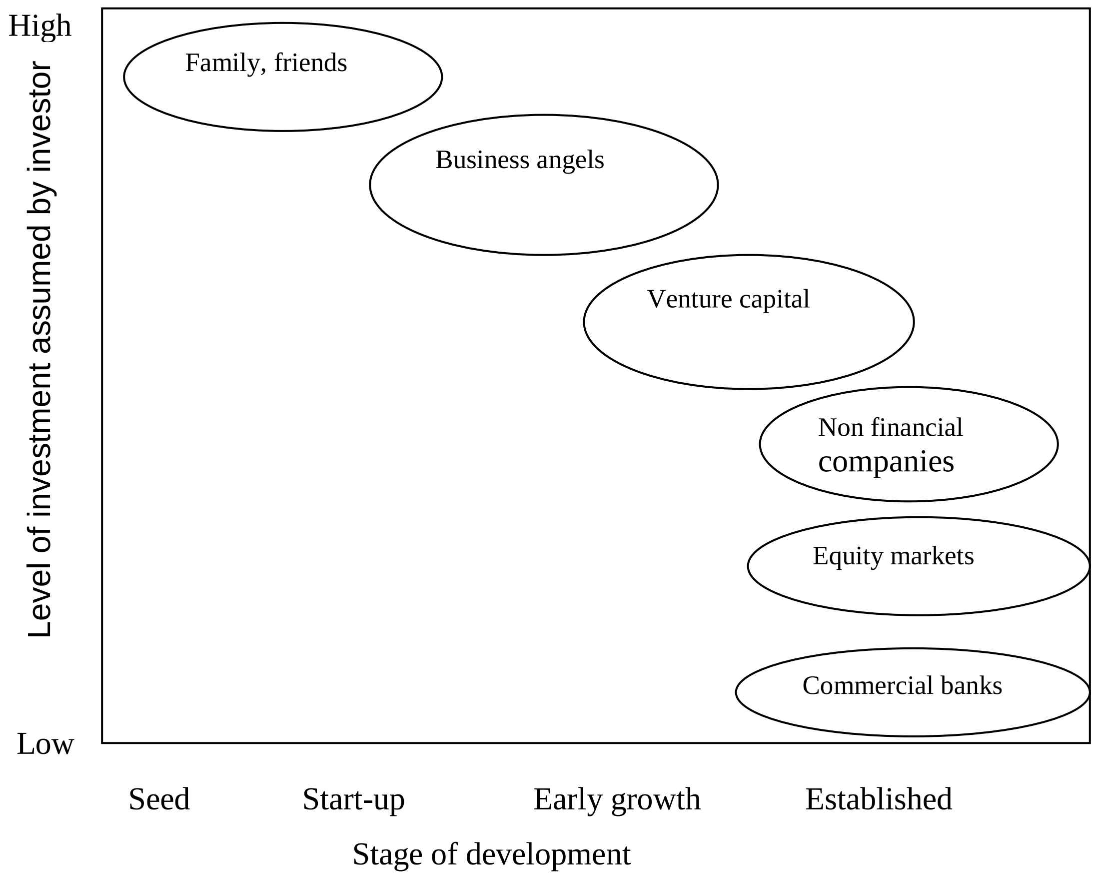
With few exceptions a small business, in its early stages, depends on internal finance more than any external source, including personal savings, retained earnings or contributions from family or friends or any other relatives or business associates (Roper, 1999). Owners of small businesses often face more difficulties obtaining external finance than large firms especially in the start-up period, because they have poor information about their business, for example financial information and credit history (Deakins & Freel, 2003).

Furthermore, owners and managers of smaller businesses frequently lack business experience and a track record as entrepreneurs. The first period of growth is marked by uncertainty both in production and marketing (Deakins & Freel, 2003). Peterson and Shulman (1987) suggested that the capital structure of business growth is dependent on the size and age of the average economic development of the country. They added that the decisions to lend the total of finance requested was influenced by the risk which was accepted by the entrepreneur.

Small businesses often operate in innovative environments of high difficulty and rapid change, and rely greatly on intangible assets. Moreover, small businesses often have difficulty obtaining funding because banks and other lending institutions are unwilling to fund risky ventures (Peterson & Shulman, 1987). The increase in private equity markets generally improves access to venture capital for small firms; however there are substantial differences across countries. Venture capital can be supplied by specialised financiers who raise capital from a range of sources: government agencies, companies, insurance companies and banks, and private individuals. Otherwise it can be provided directly by the same range of investors. More significant than the level of venture financing are the firm's age and the industrial sectors to which it is directed, and the quality of its distribution mechanisms (OECD, 2000).

Mayer (2002) studied the stages of life-cycle of technology-based small firms' development, and divided it into four stages (see figure 11). The early stage is called a seed stage. During this stage personal savings, friends, partnership and family finance are common sources of finance, because in this stage a concept of the firm has still to be established and developed. The second phase is the start-up stage when the products are developed and the firm starts to take initial place in the marketing. As well, in this period business angels are considered a key source of finance for small firms. The third phase is defined as early stage development period which is after start-up stage and before 5 years old. During this period the firm is expanding and producing but may be still unprofitable. The last stage (after 5 years old) is the stage of expansion and growth when more and different external funding may be required such as debt finance or equity finance. Figure 11 shows these stages of small business life-cycle development.

Figure 11: the development and financing of entrepreneurial firms



Source: Mayer (2002)

3.4.2 Internal sources

According to Kotey (1999) in many countries around the world, retained profits and the personal savings of the owner-managers from business operations play a key role in the financing of small firms. Moreover, small businesses are also deeply dependent on short-term credit such as credit cards, suppliers' credit and bank overdrafts, which are used as long-term funds and renegotiated numerous times (Davidson & Duta, 1991). However, self funding is classified as one of the most important sources of capital start-up; the start-up period is often considered more costly, as it is difficult to obtain financing from external sources.

Bozkaya and Potterie (2008) examined 103 Belgian technology-based small firms (TBSFs), in terms of availability of capital in the start-up stage. They found 82% of Belgian TBSFs used internal finance in the early stage. Personal savings, family and friends finance plays a major role during their consecutive development stages.

3.4.2.1 Personal savings and retained earnings finance

Personal savings and retained earnings are widely used as a source of finance for a new business. The majority of lenders require that the owners of business must have invested part of their own funds in their business, as evidence that the business owner will work hard and make their business grow and succeed.

In 1979, the Wilson Committee observed that in terms of financial performance and financial characteristics of small businesses there was great diversity, which required cautious treatment. Bates (1982) found that small firms are more heavily dependent on their savings than large firms to finance capital expenditure

Bilsen and Mitina (1999) investigated 600 businesses from Belarus, the Ukraine and Russia. They found that approximately 90% of new firm start-ups were financed by personal savings, and only 25% of firms in the first period sought additional capital from family and friends.

Bhaird and Lucey (2009) studied 299 small and medium-sized Irish businesses, and they requested details about the external and internal sources of financing used by the firm. They found a 49/51 ratio between external and internal sources of finance. Furthermore, personal sources were the most important source of finance in terms of small firms. Kotey (2006) also studied how the quality of financial information affects the ability of small business of Thailand to access external funds. The same author found that approximately 43% of small firms in Thailand used personal savings during the start-up stage and for continuing operations as well.

3.4.2.2 Family funding

Family is a further common source of funding for small firms. This source is used in the early stage of the life of small firms because small firms in that stage suffer from a lack of financial information and guarantor. In addition, lenders often require owners of business to invest part of their own funds in their own business because the business owners will work hard and make their business grow and succeed.

Sonnenfeld and Spence (1989) found that small firms tend to have low debt-equity levels of funding. The aim of this is to avoid damaging their personal guarantees and family reputation, and generally it aims to avoid losses particularly in terms of loan failure. Gallo and Vilaseca (1996) examined the impact of capital structure behavior on risk and investment. They found that family firms used diverse financial products and tend to use low debt-equity levels. Romano, Tanewski, and Smyrnios (2000) investigated 5000 Australian family and private small firms. They found that there is a complex interplay between various institutions, family and financial aspects. Family control, firm size, business planning and objectives are crucial in determining owners' financing decisions. They added that small family firms and owners who do not have formal planning processes tend to depend on family loans as a source of finance.

A study conducted in the UK in July 2007 by ASBS shows that family businesses in the UK tend to grow and are more likely to depend upon internal finance to grow. The same study found that the vast majority of small businesses in the UK do not have difficulties in raising finance; only 12 percent of small businesses were unable to obtain finance, and 73 percent stated that there were no significant difficulties in obtaining finance (Sullivan & Koutsoukis, 2008).

However, there is a little information available in the literature about the role of family in the Libyan small business sector, because Libya was under the UN embargo, and also because the Libyan government has only recently been concerned with this sector -in 2006. Obeidi (1996) studied the Libyan culture and found that the tribe and family play main role in the Libyan culture and economy.

3.4.3 External sources

The important issue facing owners and policy makers around the world is the availability of external funding for small firms. This issue has generated considerable research interest among academics and governments (Berger & Udell, 2005). Klapper, Sarria-Allende and Zaidi (2006) studied the competing theories of capital structure choices in the micro, small and medium–sized firms concentrated in the service sector. They found that there was a decrease in the average availability of external finance for small firms in general, particularly in terms of intermediated and long-term financing. In addition, they found that firms which use less external financing are more profitable.

Small firms in the early stage have more difficulties than large firms in accessing external finance. Credit history, asymmetrical information, lack of assets and other obstacles limit the access of small businesses to external finance. Small business start-ups in the early stages may face critical difficulties in terms of sourcing of finance for investment for several reasons. Firstly, a limit of internal sources such as retained profits and personal resources.

Secondly, information asymmetries and potential agency problems restrict access to external debt (Bhaird & Lucey, 2009).

However, this section will discuss the main external sources of finance which are widely used to finance small business such as, debt finance, equity finance, and venture capital finance. In the next section the researcher will discuss the constraints access to finance faced by small businesses such as "debt gap and equity gap".

3.4.3.1 Debt finance

Small businesses typically require debt finance in order to reach the phase in their growth when they become attractive to external investors. This is specifically true for small firms which have high-technology and of course have successfully driven their first development phase almost completely from loans (Smith, 1998; Al Kharusi, 2003). However, there are a number of kinds of debt finance such as bank finance and trade credit.

3.4.3.1.1 Bank funding

Previous research has classified bank loans as a major source of external funding for small businesses (Petersen & Rajan, 1994; Abor & Biekpe, 2006; Bozkaya & Delapotterie, 2008, Stokes & Wilson, 2010). Small business owners who require external finance prefer to use bank loans as a source of finance (University of Cambridge, 1992; Bank of England, 2003). According to the Bank of England (2003) during the period (2000 -2002) the average number of bank loans in the UK was estimated at 51% of all debt finance. The report added that the relationship between lenders and borrowers improved at the end of the period under study. Furthermore, banks have encouraged small business to find more appropriate forms of finance such as, leasing and invoice discounting subsidiaries. Small businesses often seek to obtain short and medium-term loans rather than long –term loans (Bates & Hally, 1982). However this type of finance (particularly in developing countries) is usually more expensive than long-term finance, because it is difficult to obtain adequate funds for expansion. Small businesses still heavily depend on short-term loans and overdrafts to fund their investment requirements (Bank of England, 2004; Bolton, 1971; Keasey &Watson, 1993). Some of the recent studies show that some of small businesses may face problems of access to bank loans (Deakins, North, Baldock & Whittam, 2008). North, Baldock and Ekanem (2010) investigated the evidence of market failure in the provision of bank finance to Scottish small and medium-sized enterprises. They found that small and medium businesses in the start-up and early stage were more likely to face problems accessing finance. They also found that the owner-mangers tend to attribute this problem to their lack of a track record of debt management in young firms sector, and to providing collateral required in manufacturing small and medium sector.

Lund and Wright (1999) studied the debt structures of small businesses in some European countries. They found that small businesses in the UK were heavily dependent on short–term finance. And that 75 percent of debts consisted of short-term finance such as overdrafts or other forms of short-term loans.

Wu, Hedges, and Zhang (2005) studied the effects of family ownership, small business owner's individual characteristics and management on small businesses, debt financing measured by use of debt in their capital structure, their accessibility to short-term debt and their financial expenses in debt financing. They found that there was a significant effect of family business on the accessibility of Canadian small enterprises to short-term debt financing and on the use of debt in their capital structures. Whereas there was an insignificant effect on the cost of debt financing charged to them. In addition, they found also the gender of owner-manager significantly affects all three aspects of small businesses debt financing.

Gonzalez, Lopana and Saurina (2007) examined to what extent Spanish firms can access external finance whether from bank or non-bank sources. They found more than 65% of 60,000 firms were quite dependent on short-term non-bank financing. In addition, they also found that the short-term non-bank loans were less sensitive to firm characteristics than short-term bank loans. They found also that the costs of funding impacted on access to external financing whether in terms of bank debt or non-bank debt, and were also affected by bank relationships, the nature of borrowing firms and collateral. Caprio and Demirguc-Kunt (1997) pointed out that the long-term debt is scarce in small firms and in particular in developing countries. They added that in the manufacturing field, long-term finance was associated with firms which have higher productivity.

Dietsch (2003) pointed out that the information asymmetry has emerged due to two salient characteristics of small firms: first, Independence of the owner-managers of small firms' with their preference for relatively high secrecy. Second, the performance of small firms often depends highly on the value of human capital. The author added that the assessing of the risk of lending to small firms is the main problem. The author also thinks that building good relationships between firms and banks will help to mitigate information problems between borrowers and lenders. In addition, having a relationship with more than one bank will lead to restoring competition between lenders. Relationship banking however with a single creditor may contribute to a captivity problem and, therefore establishing relationships with multiple banks may reduce credit constraints.

3.4.3.1.2 Trade credit

Trade credit also plays a vital role as a source of short-term external finance for small businesses (Elliehausen & Wolken, 1993; Fukuda, Kasuya, & Akashi, 2007). Many services offer trade credit for small businesses such as liquidity and risk distribution, but the reducing of transaction costs incurred with immediate payment system on delivery of merchandise is considered the most significant advantage for trade credit to small businesses (Rodriguez, 2006).

Eliehausen and Wolken (1993) studied the sources of funds used by United States small businesses. They found almost 16% of total assets of United States small businesses were financed by trade credit. Rajan and Zingales (1995) also found that about 18 percent of total assets for United States small businesses, 22 percent of the UK small businesses' total assets and 25 percent of France, Italy and Germany’s small businesses total assets were funded by trade credit.

In the case of Libya, the use of trade credit is hence considered an important source of finance for small businesses, the particular situation in Libya has not been studied in depth.

However, trade credit is used to help businesses to overcome liquidity problems and smooth out the impacts of tightening monetary policies. In addition, businesses when constrained financially or when finding difficulties to obtain bank loans seek to use trade credit (Yang & Blenman, 2008).

3.4.3.2 Equity finance

Equity financing is one of the common external sources of finance for small business. It embraces no direct responsibility to repay any funds. In fact, it gives the equity investors a share in the business based on buying part of the firm with their capital which the business requires. As a result, they will then be interested in the success and profitability of the business, and will give them a degree of control about how the business is run (Small Business Administration).

Equity investors can resell their shares to other investors at any time, and the price of their shares depends upon the success of the business. If the business is doing well, they will be able to sell their stakes at a higher price and in contrast if the business fails they will stand to lose more money than the debt investors (Small Business Administration).

In the small business field there are internal and external sources of capital, but the main three sources are; internal financing, loans from banks or any other institutions and equity financing. However, Government regulation, market conditions and institutional features determine the capital structure of business. In developing countries the majority of small businesses are dependent on internal sources and bank loans rather than any other sources (Al-Kharusi, 2003).

Most research has shown personal savings to be one of the main sources of equity finance for small businesses in the early stages (Bates & Hally, 1982; Levy, 1993; Kotey, 2006). Whereas, other studies suggested that the profit was the most internal source of finance for small businesses, particularly in the early stage (Bhaird & Lucey, 2009).

Although owner-managers of small business in the start-up period depend on their personal savings to finance their businesses, they still need to access more finance from outside sources such as, equity or loans in order to survive or grow (Levy, 1993; Kotey, 2006). Small businesses are seeking to diversify their sources of finance as they develop and grow.

However, equity finance is generally ranging across informal private investors (business angels financing) and formal venture capital investment.

3.4.3.2.1 Informal venture capital (business angels)

Hindle and Lee (2002) defined Business Angels as:" *non-institutional equity investors who are neither part of the regular management team nor related to any members of the management team in the investee business. This includes all individuals who at one time or another provide direct equity funding for businesses that are managed by others (p. 170)".*

Informal investment (Business Angels) has been classified as an important source of equity finance in the early stage and growth of small businesses. Business Angels can play an important role in terms of financing small businesses in the early stage and reducing the equity gap.

In the US and UK, informal venture capital plays a significant role in financing small business, particularly in the start-up period. Furthermore, in the US in 2000 there were

between 300,000 to 350,000 business angels (Mason, 2005). They were responsible for investing almost $30 billion per annum in close to 50,000 ventures. According to Mason 2005, 5% of the USA population is classified as informal investors. They were investing more than $108 billion per annum. However, 3.5 times this amount is invested by venture capital finance in the seed and early stage investments. While in the UK, in 2001 there were approximately 18,000 business angels. They were responsible for an annual investment of about 500 million pounds in total in some 3.500 firms, and contributed about 8 times this amount as investments in start-up firms as venture capital finance (Bank of England, 2001).
Brettel (2003) studied 48 Business Angels in Germany. The author found that the investments of Business Angels in Germany supported their investee firms and contributed to closing the equity gap. However, business angels face substantial difficulties when trying to reach investment promises, and when they try to find suitable partners with whom to share the investing risk, particularly in the early stage (Bank of England, 2001).

3.4.3.2.2 Formal venture capital

Venture capital institutions are another source of equity finance for small businesses. It plays a significant role in the financing of small businesses that seek to grow rapidly (Repullo & Suarez, 2003). For example, more than 75% of aggregate venture capital investment in Canada and the US finances the early stages and development of firms, as compared to fewer than 50% in Europe. Almost 80 percent of United States venture capital is invested in high-technology sectors. This is in contrast to the EU and Japan, where start-ups usually depend on debt funding. A well-functioning venture capital market is not only a funding mechanism, it is also a high-quality management of the information and agency problems that increases when innovators, owner-managers and investors attempt to understand each other and work together in the initiation of risky ventures (OECD, 2000).

Asymmetric information and incentives make difficulties for small businesses to obtain bank loans or outside equity (Gebhardt & Schmidt, 2006). To mitigate these problems venture capital firms have introduced a sophisticated set of innovative financing instruments. Kaplan and Stromberg (2003) suggested that the most important and common instruments are the contingent allocation of control rights (often separated from cash flow rights) and the predominant use of convertible securities.

However, this financing source is characterised by three features which are: first, venture capitalists use their experience and reputation to intervene in the management of the firm that they funded, particularly in terms of qualified personal selection in dealing with customers. Second, the infusion of the capital usual occurs during stages that relate to investment decisions and depend on information that appears over time. Third, it is based on equity-like and convertible securities rather than senior secured debt (Repullo &Suarez, 2003).

3.4.3.3 Islamic finance methods

Islamic banks are part of a broader Islamic financial spectrum which includes securities, insurance and other non-banking organisations, all of which have multiplied over the years. There are no huge differences in terms of the clients' services provided by Islamic banking than that provided by the conventional banks.

The differences between these banks are mainly in the methods of lending and the elimination of riba[1]. According to Schaik (2001, p.48), Islamic banking is "... a form of modern banking based on Islamic legal concepts developed in the first centuries of Islam, using risk-sharing as its main method, and excluding financing based on a fixed, pre-

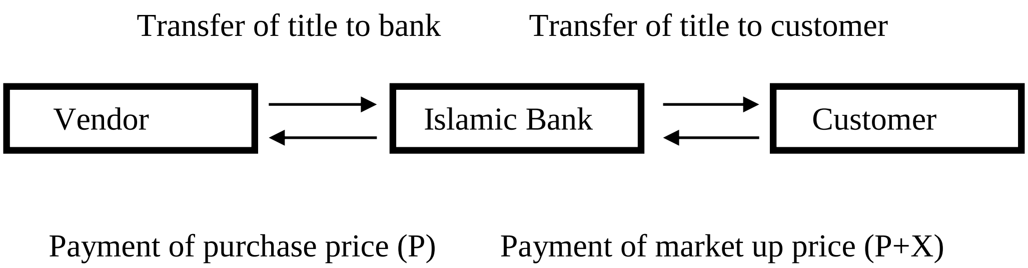
[1] "Riba in debts occurs when interest in any form (either as money or as goods) is paid as compensation for a loan, unless it is not agreed on beforehand and is paid completely voluntarily. This form of Riba is prohibited as a consequence of principle no. 5, no gain without either effort or liability, where lending is not seen as either effort or the acceptance of liability" (Schaik, 2001, p. 48).

determined return". However, Islamic banking, as a specific form of banking, has emerged as an alternative to conventional banking. Its main aim is to cater for the needs of Muslims who believe that the activities of conventional banks are incongruent with their religious and moral tenets. Furthermore, Islamic methods consider it an important factor to raise the competitiveness in the small businesses sector. Small businesses use Islamic finance for updating their equipment and machines. It is also used to access more sophisticated machines. The prohibition of riba is the basic principle of Islamic finance. Furthermore, the Islamic finance has developed methods for clients to accept deposits and lend funds according to the principles of the prohibition of riba (Al-Omar & Abdel-haq, 1996). This section will focus on a discussion of these Islamic lending methods.

3.4.3.3.1 Murabaha or Mark-Up

According to Al-Omar and Abdel-haq murabaha or mark-up means " a cost-plus, in which a client, wishing to purchase equipment or goods, requests the Islamic bank to purchase the items and sell them to him at cost plus a declared profit (1996, p.15). It is a method used by Islamic banks to invest their surplus funds in the processes of sale and repurchase according to the repurchase agreement between the client and the bank. It means that the bank itself buys the items for the client, and the client agrees to repurchase at a specified price and a specific time. Warde (2009) pointed out that this method accounts for 90 percent of the Islamic banks' investment. Wilson (1997) also added that the murabaha method is the most commonly used method in Islamic finance. Lewis and Algaoud stated that the difference between murabaha and interest is that the murabaha "*is not explicitly related to the duration of the loan but instead computed on a transaction basis for services rendered and not for differing payments*" (2001, p.53). However, the Islamic banks play a more significant role than the role of the conventional banks, because the Islamic bank resells the goods to the customers which are then delivered by domestic or overseas producers at a specific price. In this case there are certain risks in the process the bank bears between purchase and resale, such as the customer refusing to accept the goods, or the prices going down suddenly. Therefore, there is a risk and responsibility for the goods carried by the banks until they are safely delivered to the customer (Lewis & Algaoud, 2001). Figure 12 illustrates the structure of a murabaha contract.

Figure 12: the structure of a Murabaha contract



Source: The Bahrain Monetary Agency Report (2002, p.25)

According to the figure 12 the responsibilities of the parties to a murabaha contract are set as follows:

- The position if the bank starting by purchases the asset from the seller for P.
- The bank then sells the asset for the customer at a market up price (P+X) using a deferred payment basis method.
- The period covering the deferred payment is effectively the period of financing.

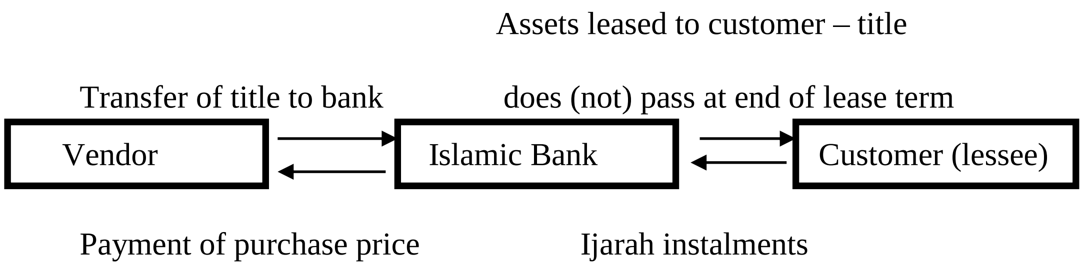
The title to the assets is transferred to the client at the time of purchase but typically the client presents the same or other assets as a guarantee to the bank for the period of financing (The Bahrain Monetary Agency, 2002, p. 25).

3.4.3.3.2 Ijarah (leasing)

The word Ijarah is defined as the equivalent of leasing in English. This Islamic method of finance is widely used as a method of finance for small businesses, and it is also used in retail finance, home mortgages, cars and household needs (Warde, 2009). Al-Omar and Abdel haq (1996, p.14) defined the leasing funding method as "*an individual, short of funds may* *approach another with a surplus (the financier) to fund the purchase of a productive asset. The financier may do so by buying and renting it out to the one who needs the asset".*

The Ijarah funding method is considered an acceptable method in the view of Islamic scholars since it meets certain conditions such as both (buyer and seller) parties know clearly and in advance the services that the asset is going to provide and the reasons for renting (Al-Omar & Abdel haq, 1996). The rent in the Ijarah funding method is paid according to the agreement between the parties, perhaps monthly or quarterly and it covers all or most of the main purchase price (Wilson, 1997). Moreover, both parties are responsible about Ijarah. For example, the asset remains owned by the leaseholder and he/she is responsible for it during all the period of the Ijarah, even about the maintenance. In addition, the contract remains valid even if some damage has occurred to the asset, and the leaseholder can cancel the contract if it is found that the asset proves less valuable than expected (Al-Omar & Abdel haq, 1996). Figure 13 illustrates the structure of an Ijara contract as follows:

Figure 13: the structure of an Ijara contract



Source: The Bahrain Monetary Agency (2002: p.28)

However, the responsibility between parties in the Ijarah contract in figure 13 can be explained as follows:

- The bank purchases the asset from the seller.
- The customer then leases the asset from the bank.
- The bank collects the periodic rentals.
- The title of the asset remains with the bank under an operating Ijarah.

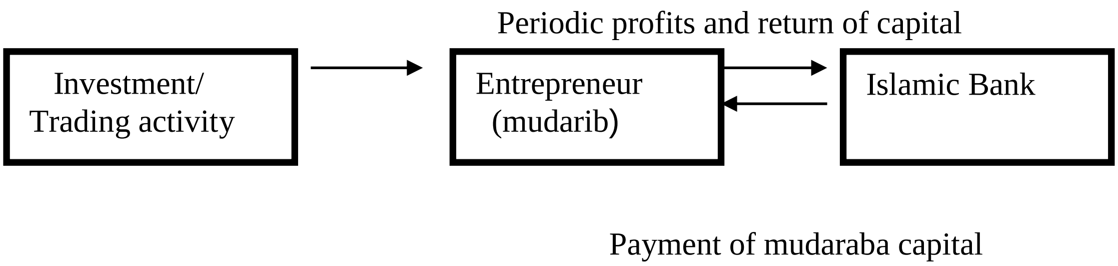
- Title passes to the client when the Ijarah is finished. (The Bahrain Monetary Agency, 2002, p.28).

3.4.3.3.3 Mudaraba (trust financing)

Mudaraba is one of the Islamic finance methods used by the Islamic banks. Haron, Ahmed and Planisek, (1994: p. 33) defined the method of Mudaraba as "*an agreement between a lender (sahib al-mal) and an entrepreneur (mudarib) on a profit-loss sharing basis according to a predetermined and agreed ratio".*

According to Presley (1988) Mudaraba is an Arabic word called in Hejaz countries (Qirad). It is a method of funding used in Hejaz before Islam to finance a significant part of trade. Mudaraba is classified as a kind of partnership conducted between two parties. The first part is the financier and called the *sahib al mal or rabb al mall* in the Arabic Language, and the second part is the entrepreneur who is called in the Arabic language *mudareb.* The position of the financier is to provide the capital and acts like a sleeping or dormant partner. While the position of the entrepreneur is to provide the management and entrepreneurship in order to carry on any venture, industry, trade or service with the objective of earning profit. Figure 14 illustrates the structure of a mudaraba contract.

Figure 14: the structure of a Mudaraba contract



Source: The Bahrain Monetary Agency (2002: p.26)

However, according to the figure 14 the responsibilities of the parties to a mudaraba contract are as follows:

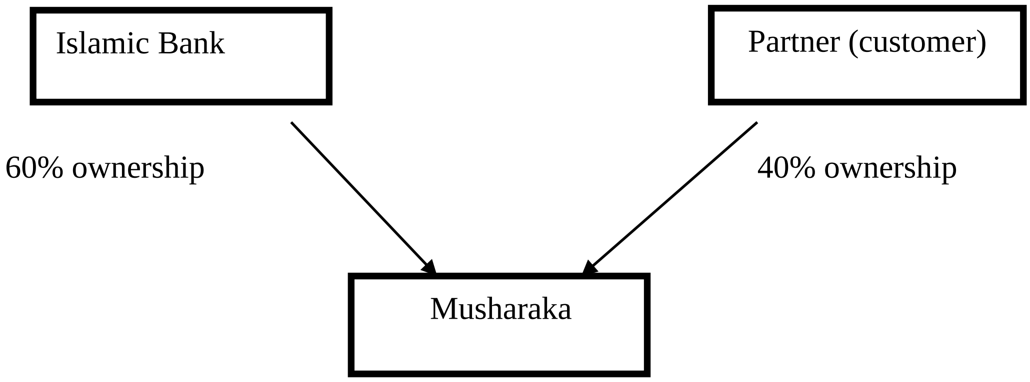
- The bank provides to the customer (mudarib) all the capital to fund a specified enterprise.
- The customer does not contribute capital but contributes management expertise (or entrepreneurship).
- The client is responsible for the day-to-day supervision of the scheme and is allowed to take its supervision fee (mudarib fee) from the scheme's income.
- The fee of the mudarib might be a fixed fee (to cover the expenses) and a proportion of the income or a combination of the two.
- The balance of the income of the project is payable to the bank.
- If the project makes a loss, the bank (as provider of the fund) has not bear all the losses unless the loss has happened due to the negligence on the part of the mudarib (The Bahrain Monetary Agency (2002: p.26).

3.4.3.3.4 Musharaka

Lewis and Algaoud (2001, p.42) defined Musharaka as *"a form of partnership where two or more persons combine either their capital or labour together, to share the profits, enjoying similar rights and liabilities".* According to this aspect of finance the parties should have some funds for investment, and additional funding can be provided for them from the bank or other investors. In the musharaka method all parties are entitled to participate in management, and the losses shared according to precise proportion of the capital of each party. There are vital differences between musharka and mudaraba. Mudaraba is *"the ratio in which the finance-provider shares the profit of the business with the party receiving the additional funds is fixed and predetermined"* (Al-Omar &Abdel haq, 1996, p.13).

However, the method of musharka is used by banks to fund the purchase of real state, equivalent to a conventional bank mortgage. Figure 15 shows the structure of a musharka contract.

Figure 15: the structure of a Musharka contract



Source: The Bahrain Monetary Agency (2002, p.27)

However, the responsibilities of the parties of musharka can see as follows:

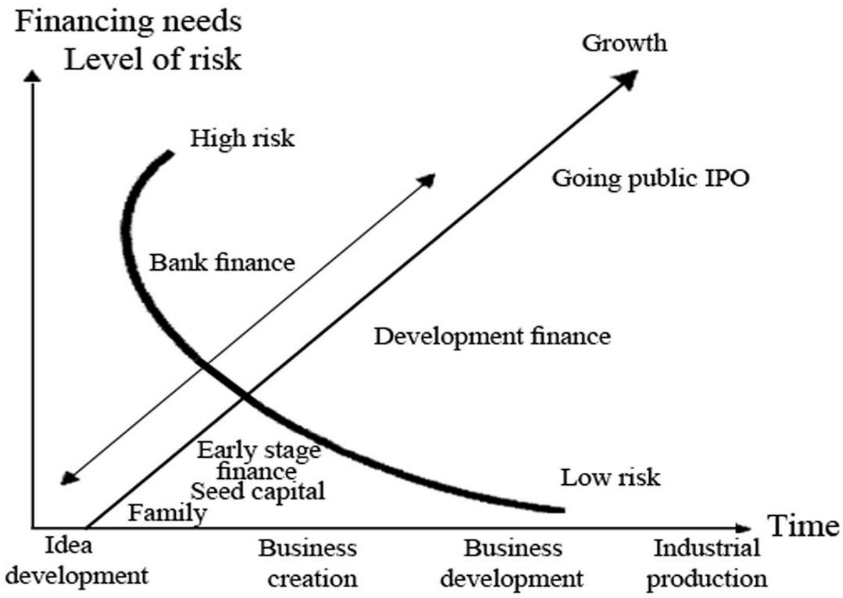
- Both the customer and the bank contribute toward the assets of the project.
- Under a "diminishing" musharaka, the client purchases out the bank's share over a period of time.
- The client and the bank divide in the income according to the agreed proportions, according their shares. Any losses of the project will be borne by the client and the bank according to their share contributions.

Having provided a discussion of the three main concepts within this study, namely, sources of funding: internal, external and Islamic funding, the next section is designed to discuss other issues related to the growth and financing of small businesses, which are: firm growth and constraints about access to finance issues such as debt gap and equity gap.

3.5 Firm growth and constraints accessing to finance issues

Some studies on finance have stated that access to finance is the main obstacle to small business growth. For instance, the first study was conducted in the UK by the Macmillan Committee in 1931. It discovered that the growth of small businesses in the UK may have been hampered, because they did not have access to finance and other important facilities which were accessible to large firms. Figure 16 shows the growth cycles development of the firm. Furthermore, the committee has confirmed that there was a long-term capital gap for small businesses because they were incapable of obtaining external finance over the long term. This financing gap was later described as the "Macmillan Gap" (Storey, 1994). Since the Macmillan committee published their report in 1931, this problem has retained a high level of interest from many researchers, whether in the UK (Radcliffe Committee,1959; Bolton,1971; Binks & Coyne,1983; Dewhurst & Burns,1989; University of Cambridge,1992; Story,1994) or in other developing and developed countries(Anderson,1982; Kee & Sing, 1986; Ahmed,1987; Levy,1993; Abakhail,1999; Al Kharusi, 2003; Caskey, Duran & Solo, 2006; Beck, Demirguk, & Honohan, 2008b). As mentioned earlier, the Libyan government has only recently become concerned about this sector, and in addition Libya was under UN sanction until 2003. Therefore, to the best knowledge of the research, there has been no academic research conducted studying the problem of the funding gap in Libya.

Figure 16: Financial growth cycles of



firms

Source: China's emerging private enterprises: prospects for the new century, IFC, 2000.

Bates and Hally (1982) categorized the problem of raising finance into two parts: a) the objectives and attitude of the owner-managers to equity financing, b) the characteristics of the small businesses themselves. The characteristics include their higher risk, their diversity, their inability to present strong guarantees, and phase of development effects. However, the problems of small firms are not considerably different from large firms; particularly in the terms that their problems are particular and specific (Bates & Hally, 1982, Lean & Tucker, 2001).

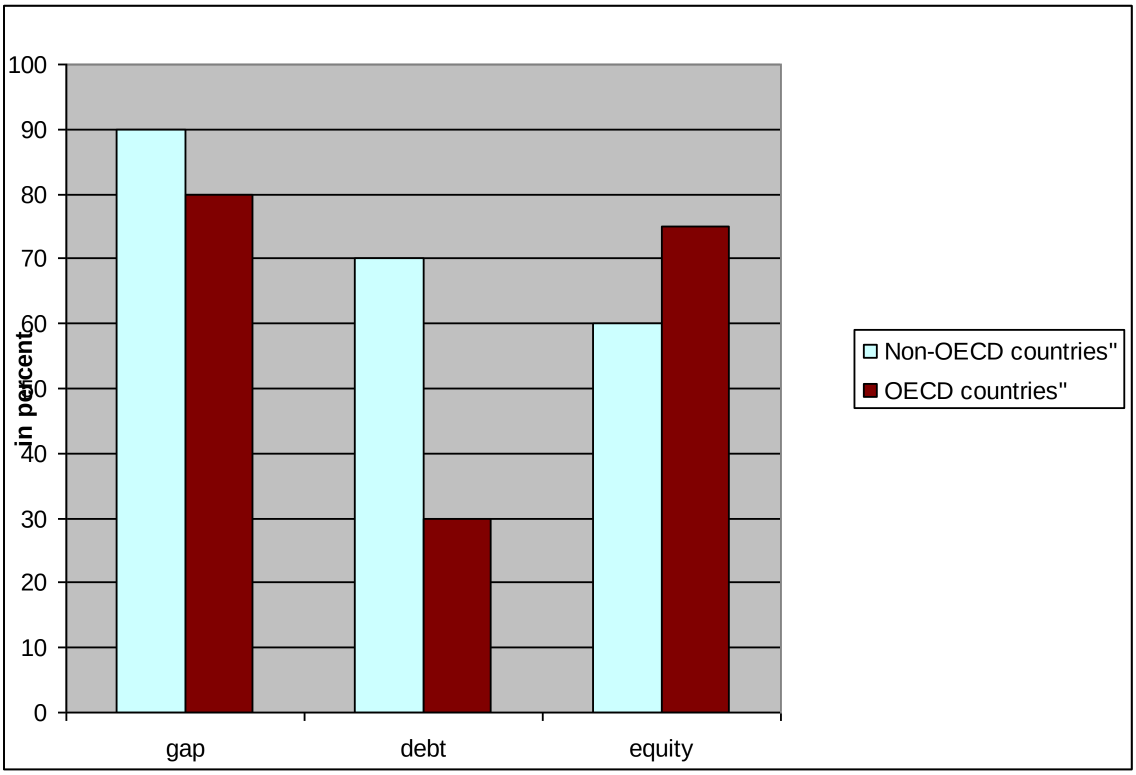
Binks (1992, p.36) stated that "the smaller the firm, the larger the proportionate increase in the capital base required to respond to an increase in demand, but the lower its ability to command loan and equity finance".

The studies conducted by the World Bank team in November 2008 studied 91 banks in 45 developed and developing countries around the world. The researchers tried to quantify the extent; pricing and type of funding banks extend to small and medium-sized businesses compared to large firms. The results found that the share of bank loans to small and medium firms were 11% and 13% respectively. Whereas the banks average exposure to large companies was about 32%. Fees on small and medium businesses loans were 1.11% for small businesses and 0.96% for medium-sized, while the average for large firms' fees were 0.76%. In addition, the share of non-performing loans for small and medium firms was 7.4% and 5.7% respectively, whereas the average was approximately 4% for large firms. This means that according to these variables, there are statistically important differences between small and large businesses in their funding features (Beck et al., 2008a). In transition economies, financial constraints to the growth and development of small businesses and entrepreneurship are said to be heightened by an underdeveloped institutional environment in these economies (Chilosi, 2001). For instance, in eastern European transition economies all sources of finance often are underdeveloped. In addition banks are predisposed towards working with state organizations; therefore small businesses face high interest rate and collateral requirements (Pissarides, 1999). The same author added that small businesses in transition economies tend to underreport their income and turnover to avoiding taxes; therefore, they fail to register their businesses and to borrow from banks. Johnson, McMillan and Woodruff (2000) also pointed out that in transition economies lending information is more likely to be absent and investment uncertainties seem to be trait.

However, the existence of a debt gap is not only related to the size of the firm, but also to other problems, such as the information gap (information asymmetries, service and advice gap). The lack of a relationship between small firms and banks may cause some problems due to the absence of information about the abilities of the businesses, lack of financial information about the quality of the businesses (adverse selection) and the monitoring process(moral hazard) (Al Kharusi, 2003; Columba et al, 2009; Lean & Tucker, 2001).

More recently, Schiffer and Weder (2001), Beck et al., (2005 & 2008a) have shown that small businesses find the access to financing more difficult than larger businesses. A study conducted by the OECD in 2004 (see figure 17) covered 12 non-OECD countries and 20 OECD countries. The OECD developed questions on small businesses access to finance (equity and debt finance). The results found that the most significant problem facing growing small businesses everywhere (particularly in developing countries) were accessing finance (OECD, 2006).

Figure 17: Financing gap for small and medium- sized businesses



Source*: OECD, (2006).*

In addition the lack of access to finance was usually due to some problems such as asymmetric information, problems of dealing with uncertainties for example agency and principal problem, institutional problems and adverse credit selection. Furthermore, suppliers of finance could not make low interest rate and credit rationing which would leave an important number of small businesses without access to credit (Ganbold, 2008 & Malhotra et al., 2006).

Several countries spend large amounts of public money to moderate debt and equity gaps that are presumed to be present, especially between small businesses. A large range of policy schemes, for instance, loan guarantees, interest subsidies and direct loans, have been established to alleviate funding rationing of small firms (Maeseneire & Claeys, 2007).

3.5.1 The equity funding gap

The most obvious finance gap relating to the financial development of small businesses is the lack of equity finance. Notwithstanding, the government reports have frequently expressed its concern at the increasing severity of this problem, and the experimental research has emphasised the existence of an equity gap (Macmillan, 1931; Bolton, 1971; Ahmed, 1987; Lean & Tucker, 2001; Al Kharusi, 2003; Gualandri & Venturelli, 2009; Bannier & Grote, 2008).

Since an equity gap for small businesses was first identified in the UK by the Macmillan Committee in 1931, there have been numerous studies that confirmed this thinking (Bolton, 1971; Wilson, 1979; Storey, 1994; Gualandri & Venturelli, 2009).

Macmillan (1931 p.173) stated "*It has been represented to us that great difficulty is experienced by the smaller and medium- sized businesses in raising the capital which they may from time to time require, even when the security offered is perfectly sound. To provide adequate machinery for raising long-dated capital in amounts not sufficiently large for a public issue, i.e., amounts ranging from small sums up to say 200,000 pound or more, always present difficulties. The expense of a public issue is too great in proportion to the capital raised, and therefore it is difficult to interest the ordinary investors by the usual method; the investment Trust Companies do not look with any great favor on small issue which would have no free market and would require closely watching; nor can any issuing house tie up its fund in long-dated capital issues of which it cannot dispose. In general, therefore, these smaller capital issues are made through brokers or through some private channel among investors in the locality where the business is situated".*

Bolton (1971) pointed out that the majority of the authorities have decided that the problem identified by the Macmillan committee was authentic at the time, and added that it is true that the new problem is that the market is still effectively closed to small businesses which want to increase fewer than £250,000 in equity or a significant figure in loan capital (Bolton, 1971).

The Wilson Committee (1979) found that about 75% of small businesses oppose external participation in order to eschew control by outsiders. Whereas Vickery (1989) mentioned that the case in which equity is not seen as a key element of business financing, can be demonstrated in a typical family business. This problem of equity gap was later narrowed by some other institutions. For instance, the University of Cambridge study (1992) declared, that the observation of prevalent financial constraints on small businesses could not be supported by any evidence of failed firms. It was commonly agreed that the equity gap had narrowed following development in the private sector markets together with the implementation of government plans to complement the private sector activities (Al Kharusi, 2003). Harding (2000) concerned to study venture capital and regional development. She found that several of entrepreneurs think that they will lose their control over their business if they accept the venture equity funding.

The ability of firms to access finance requires a good presence in the financial markets that connect businesses to lenders and investors who wish to fund their ventures (Malhortra et al., 2006). Mason and Harrison (1992) studied that the extent equity gap reflects the presence of demand and supply side factors. They found that owners of small business often were slow to give up due to perceived loss of control and independence. The efforts of governments to solve the problem of business failure have often interfered seriously in financial markets using some methods, which usually have deficient results (Ganbold, 2008). For example, the government overrules the interest rate ceilings of most countries in the market of interest rates. This causes more problems than it solves and discourages banks from lending to higher risk firms.

Storey (1994) stated that notwithstanding over sixty years there were a huge number of changes in the field of financing small businesses, and there were several learned committees that have examined this subject such as Bolton and Wilson. The small firms still find difficulty in obtaining small sums of equity capital, and feel penalized by an inability to obtain loan capital, or obtain it only at high interest rates (Storey, 1994).

Cruickshank conducted a research in the United Kingdom (2000, p.172) concluding that the problem of the equity gap is still a key obstacle to small firms' growth: "*there is clearly a mismatch between the needs of firms requesting small scale equity investments and the supply of these investments"*. In economic reality this market failure has its roots in the following: a) The fixed transaction and administration costs of operating a venture capital fund; b) The higher income required from investments to service these costs (Don & Harrison, 2006).

Wilson, (2002) examined 500 small businesses in the UK considering the reasons for not wanting to raise equity finance. 31 percent of respondents stated that the equity finance was inappropriate because it came from small businesses, whereas another 31 percent mentioned that it belonged to a partnership or a private firm. Other directors (19 percent) clarified that they avoided equity finance driven by their fear of problems that could arise, such as losing the control of their firms. Some respondent also claimed that they did not need equity finance. 16 percent of respondents did want to increase equity finance.

3.5.2 The debt funding gap

Several studies noted that small businesses tend to depend on the owner-manager's savings, financial help from family, friends, and trade credit, particularly at the start-up period (Storey, 1994; Bell, 2005; Beck et al., 2008a).

Storey (1994) stated that in general external equity is considered only as a last resort. Levistky and Prased (1989) pointed out that most of small businesses obtain finance without institutional help. Notwithstanding, it has been illustrated in some studies that institutional financing is required in order to aid expansion, particularly when firms begin to grow, innovate and diversify (Macmillan Committee,1931; Bolton, 1971; University of Camridge,1992; Bell, 2005).

According to the University of Cambridge (1992) and the Beck et al., (2008a) small businesses in the early stage are less likely to obtain bank loans as they have no track record and therefore it is difficult to borrow money. A lack of financial security is the most serious barrier for small seeking support from financial organisations (Bertocco, 2003; Beck et al., 2008a).

Bell (2005) mentioned that the lenders in any country in the world make loans depending on two factors: a) the availability of money and b) the average level of the risk that may be involved. The availability of money is quite easy: whether it is available or not. On the other hand, establishing the risk involved is a decision based on a number of aspects but the basic one is the existing credit and operating history. However, the world lenders are extremely hesitant to lend businesses in the initial year of operations because the lack of this history contributes to risk. Generally, there are exceptions, but this is the common rule. Owner-managers, when starting-up businesses, should prepare or attract enough assets to start and run their business for the first period before borrowing loans from institutes. Presumably, this lack of assets contributes to an increased risk (Bell, 2005). Risk is related to a lack of information. Information also plays a crucial role in the lending activity. Globally, if the information was freely accessible to all lenders, finances would always flow toward companies with positive net present value projects. In fact, owner-managers of firms have private information regarding the value of their firms. The Aston Business School report (1991) pointed out that most businesses that were unsuccessful in obtaining finance lacked relevant information or obtained poor advice about acceptable sources of finance.

Researchers and policymakers require information to answer a diversity of questions relating to the financing of small businesses such as: Who are the contributors? And how important are they to the borrowers and lenders? What is the structure of the financial market for small businesses? What issues affect contributors' decisions in the market? What are the costs? How are the markets performing? Are there funding gaps and if so why? How successful have any efforts been? What has the government done to help small businesses? (Ou, 2006).

Many studies in the United Kingdom explain that the financial statements of small firms provide essential information for increasing finance and of course helping owner-managers with controlling, planning and decision making, in addition to some other positive functions in supporting the financial contentment of the business (Carsberg, Page, Sindall & Waring, 1985; Jarvis & Collis, 2003; Cosh et al., 2008, Stokes & Wilson, 2010). The purpose of financial statements is to present positive information to a broad variety of users in making financial decisions. Moreover, financial statements are useful for a number of users such as lenders, investors, customers, employees, suppliers of credit and government (Jarvis & Collis, 2003). Bates and Hally (1982) stated that the problem of the lack of information is related to the owner-managers themselves who do not constantly react immediately to information and who do not seek suitable advice until after the problem happens. A lack of information is considered the main reason why many small businesses fail to apply to suitable financing institutions (Colombo and Delmastro, 2000).

Cosh et al., (2008, p. 2), confirmed this claim and added

> "*In relation to debt finance the principal reason why in theory small businesses may face difficulties is that the lenders find it difficult to distinguish good borrowers from bad ones. This arises essentially from the costs of obtaining the full information which a loan provider may feel is appropriate on many thousands of individual SMEs. The lenders in these*

circumstances will typically price for average degrees of risks across classes of business rather than on an individual basis. This will lead to a problem insofar as those businesses whose private knowledge leads them to believe they are better than average will tend to find the loans unattractively priced, whereas those who believe they are worse than average will not do so".

Small businesses without assistance from lenders will consequently suffer in the supply of funding. Furthermore, the availability of information to evaluate hazard is greater for more well-known firms, whereas the general small business may not have information. Consequently they would find it more difficult to obtain funding (Cosh et al., 2008). However, asymmetry information, moral hazard and adverse selection are common obstacles which face small businesses when accessing debt finance (Zhao, Wu & Chen, 2006).

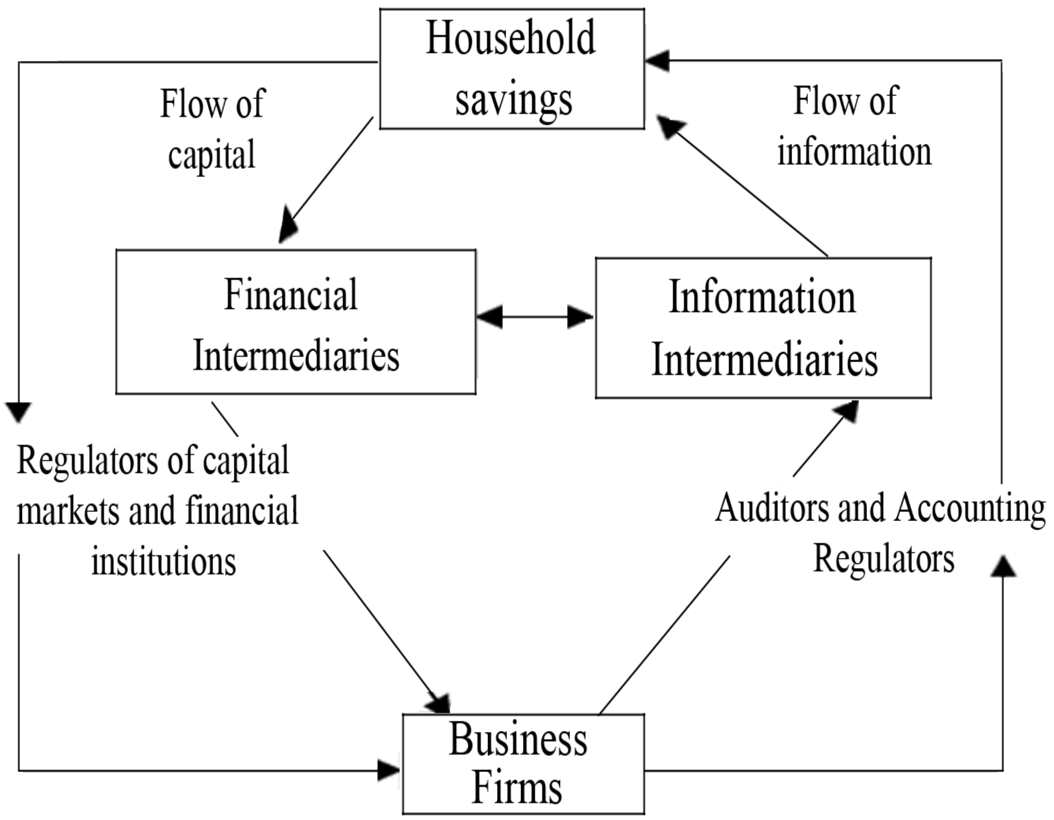
3.5.2.1 The asymmetric information problem

The ability of raising financial capital is classified as one of the most important constraints facing the survival and growth of small businesses. Owner-managers of small businesses have encountered problems when approaching providers of finance for funds to provide working capital for the firm's operations or to support fixed capital investment (Lean and Tucker, 2001). Macmillan in 1931 indicated in his report that small firms face financing gaps, because they own a poor position in the market for bank loans (Lean and Tucker, 2001). Many researchers studied this financing gap and stated that the fundamental reason for this problem is the information asymmetry that exists between lenders and borrowers (Macmillan, 1931; Bolton, 1971; Storey, 1994; Lean & Tucker, 2001). In the capital market economy, information and incentive problems constrain the efficient allocation of resources. Disclosure is encouraged to facilitate the credibility between investors and managers and it plays an important role in mitigating these problems (Healy & Palepu, 2001). Most economies face critical challenges in the allocation of savings to investment opportunities. Many existing companies and new entrepreneurs seek to attract household savings, which are usually widely distributed, to finance their business ideas (Healy & Palepu, 2001).

However, both entrepreneurs and savers seek to do business with each other. In addition, to match their savings with business investment opportunities may be complicated for these two reasons. First, savers usually have less information than entrepreneurs about the history and value of business investment opportunities. Therefore, they face an information problem particularly when they make investments in business ventures. The second reason is called "agency problem". This problem often happens when investors have invested in their ventures and entrepreneurs have an inducement to expropriate their savings (Healy & Palepu, 2001). An information problem often emerges from information asymmetry and conflicting incentives between lenders and borrowers.

Healy and Palepu, (2001) however, mentioned that there are two potential solutions to the information problem which are: first, optimal contracts must apply between investors and entrepreneurs that will lead to provide incentives for full disclosure about private information. In addition it will lead to mitigating the problem of asymmetric information. The second potential solution to this asymmetry problem is, as the same authors suggested, that the managers of firms must fully disclose about their private information, because managers' information is required from intermediaries who engage in private information production such as, rating agencies and financial analysts. Figure 18 shows the role of information disclosure and financial intermediaries in the capital markets. However, the capital can flow between investors and firms in two ways. First, it can flow directly from investors (such as, angels financing and private equity) to businesses. Second, it can flow through more typical ways which are financial intermediaries such as, venture capital finance, banks, and insurance companies. The right side of the figure shows the flow of information between firms and investors and intermediaries. Communication between businesses and investors can apply through such financial reports and press releases, or through intermediaries such as financial analysts.

Figure 18: Financial and information flows in a capital market economy



Source: Healy and Palepu, (2001).

In terms of small businesses the risk and uncertainty regarding future conditions are characterized by the financial market (Abor & Biekpe, 2006). Information is distributed asymmetrically between lenders and borrowers however there are two direct aspects which usually identify the information asymmetry which are namely: adverse selection and moral hazard.

3.5.2.2 Adverse selection and moral hazard

Adverse selection means that it is theoretically assumed that the managers have private information about the potential success of their business or there are expected profits that are not mentioned in their reports or might be unknown from their financier (Abor & Biekpe, 2006). As a result, suppliers of credit face difficulties (or perhaps not) to differentiate between a low-quality business and a high-quality business and adverse selection can increase.

However, banks play an important role to reduce adverse selection problems in the economy during screening out applicant borrowers that do not fulfill the lending standards. In addition, the failure to perform this function will lead to a weaker balance sheet and more risk portfolios, with negative results for the stability of credit markets (Ariccia & Marquez, 2006). Ariccia and Marquez (2006) examined how the information about borrowers distributes between banks, and how it interacts with banks to determining the lending standards. The authors found that the market was sensitive about information. Any changes in the market information structure could probably cause a banking crisis. Particularly, a reduction in the information asymmetries between banks might lead to a decrease in the lending standards, obverse a rise in the volume of lending and then a deterioration of bank portfolios, and finally might cause lower and more volatile profits. How do the entrepreneurs use the capital finance provided? This is a critical question that the external suppliers of capital need to answer. External suppliers of capital cannot fully control how the entrepreneurs or managers of business use funds provided (Abor & Biekpe, 2006).

The different probabilities of repaying loans are by raising the adverse selection problem. Bank would like to be able to decide if the borrower can return the loan on time. But more difficulties are faced identifying if borrowers can repay the loans or not. Characteristically, to identify these difficulties, banks will seek to use a variety of screening devices. Banks usually use the interest rate as one such screening device (Jackson & Thomson, 2006). For instance, borrowers who are wishing to borrow from the bank with a higher interest rate are more likely to be on average of higher risks, because their probability of repaying the loan is often lower. In consequence, the bank's profits from lending will decrease as a result of those who are willing to increase the amount of loan in the higher interest rate (Jackson & Thomson, 2006).

In the same way, the behavior of the borrowers will change as a result of changes in the interest rate and conditions of the contract. For example, higher interest will decrease the profitability of all the same borrowers who have failed or succeeded. In addition, higher interest rates might induce firms to undertake riskier ventures. However, businesses considered to be more risky can attract a higher interest rate. Therefore, the price a firm pays for credit may affect its investment decisions (this problem is called the moral hazard problem) (Jackson & Thomson, 2006).

Having discussed the firm growth and constraints accessing to finance issues in this section, the next section will discuss the other factoring affecting small business growth such as, the access to financial services issue and cash flow issue.

3.6 Other related issues affecting small business growth

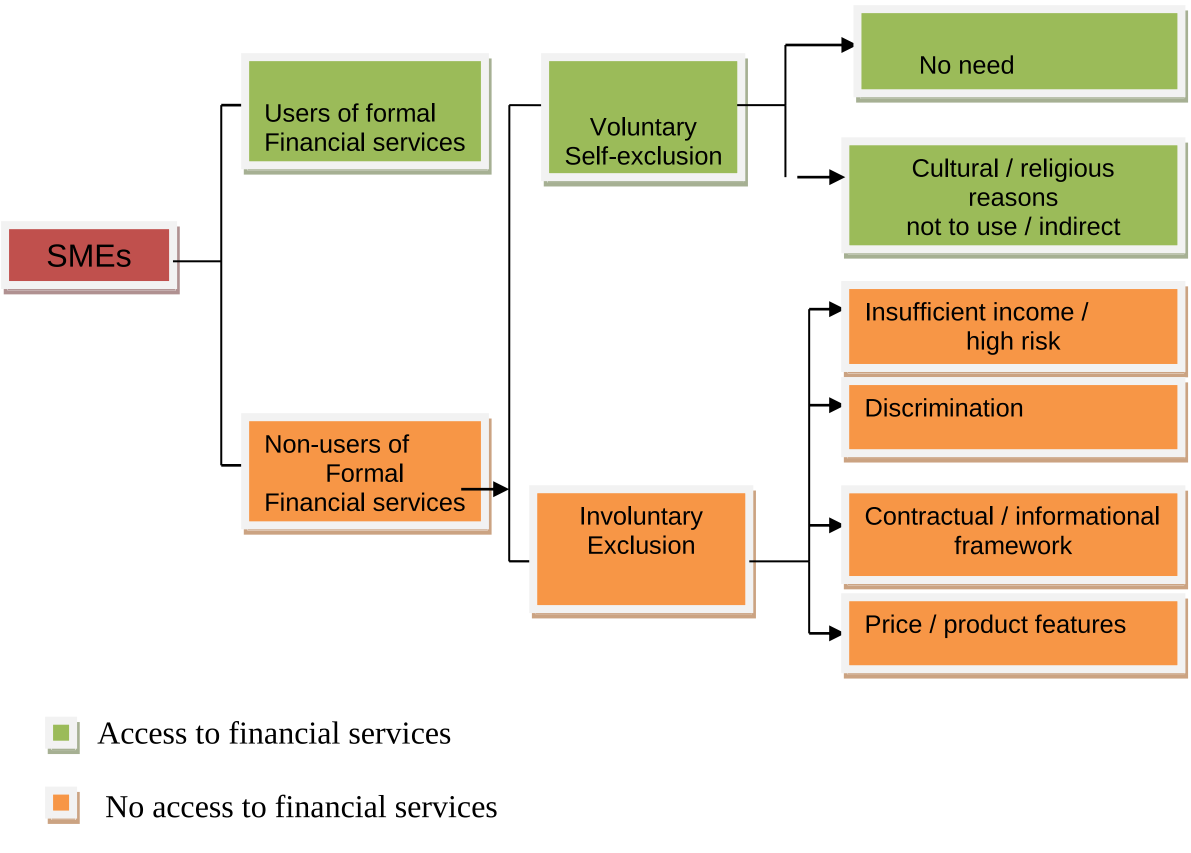
The importance of the contribution of small firms sector to the local economy has been increasing in many developed and developing countries. Thus, higher intention has being taken to study the factors that promote the development and growth of this sector. However, several studies indicate that the small businesses face a range of constraints that limit its role of poverty reduction, job creation and fostering economic growth (Beck et al., 2008b; Claessens, 2005; Ishhengoma & Kapple, 2006). Ishengoma and Kapple (2006) pointed out that there are internal and external factors which hinder the performance of small businesses which are; internal factors such as, limitation of the human capital (the education, skills, knowledge and motivation), lack of working capital, the utilization of poor location. Examples of external factors are limited access to financial services, to funds, to the business development services, limitation of the market, complex government regulations, the nature of linkage relationships, weak association ...etc (Ishengoma & Kapple, 2006). This section will discuss some other factors which affect small business growth and development such as the access to financial services issue and cash flow issue.

3.6.1 The issue of access to financial services

It has been said that in developed and developing countries the main issue for small businesses is how they access finance (Claessens, 2005). Beck et al., (2008a) pointed out that this issue is still being debated by the majority of academic researchers and policy makers in different world economies. Moreover, the World Bank report mentioned that there are some factors that have contributed to an increase in these arguments (Beck et al., 2008a). Firstly, there is a quantity of empirical evidence which suggests that the expansion of access to finance may result in reducing poverty in developing countries. Secondly, the interest in small business access to finance may result in financial development that leads to growth. Thirdly, unlike developed countries, there is a widespread lack of access to financial services in developing countries (Beck et al., 2008a).

Ganbold (2008) defined access to financial services as improving the degree to which financial services are accessible to all at a fair price. In measuring the use of financial services it is easier when they can be observed, however, use of financial services is not always the same as access. In addition, access basically relates to the supply of services, while the determinants of use are supply and demand taken together (Beck et al., 2008a). Figure 19 shows the difference between use and access to financial services. There are important attributes shared among non-users, and it is easy to differentiate the users of financial services from nonusers. However, non-users of financial services may have religious or cultural reasons for avoiding debt, or may not see any need for finance. Furthermore, non-users may be able to access financial services, but they do not have any plan for growth or investment. On the other hand, the involuntarily excluded cannot access financial services, despite demanding them. The World Bank report added that there are diverse groups within the involuntarily excluded. The first group is households and enterprise businesses. According to commercial financial organisations this group is considered to be not bankable because they present too high lending risk and do not have enough income. The second involuntarily excluded group relates to that part of the population who might be discriminated against on religious, social, or ethnic grounds.

Figure 19: the differentiation between access to finance and use



Source :(Beck et al, 2008a).

The third group is excluded because of the informational and contractual framework that might block financial institutions from extending services to several population groups, also in order to be commercially viable they might need prohibitively high costs. Eventually, the characteristics of the services might be unsuitable for certain groups of people and the price of financial services may be too high.

3.6.2 Cash flow issue

Cash is considered one of the main important elements to firms' survival (Stokes & Wilson, 2010). Firms without regular cash flow face more difficulties and can fail. Scholars focused and advised firms to prepare cash flow forecasts and manage their cash flow, in target to avoid liquidity risks. They thought that the cash flow budget is very important for management to controls the work and it considers also as an eye of the management for the firm (Nasir & Abdulah, 2004; White, 2007).

"Information in the cash flow statement is expected to help investors, creditors and other users of financial statements to assess attributes such as the firm's liquidity, financial flexibility and risk. Financial statement users are interested in the firm's cash flows primarily as these affect their future cash flows" (Seng, 1997, p.2).

Wasley and Wu (2005) studied how to manage the issuance of cash flow forecasts. They found that to reduce the negative impact of bad news in earnings, the management should disclose good news in cash flow. They added that the management in small business uses the cash flow forecasts to mitigate any negative news in their earnings and also to increase the creditability in their earnings and used as signal to their economic viability.

However, planning and management of cash flow are important for the success of the business. While owners of businesses think that profits are the most essential financial component of a business, the lack of cash is considered to be the main reason for the failure of huge number of businesses (ABC Business Consulting, LLC, 2010). Cash flow budget can provide owners information about the extent of cash flow can cover the expenses, equipment and goods purchases, as well as it can inform and indicate for the owners how much eternal sources of cash are necessary and required (ABC Business Consulting, LLC, 2010). Furthermore, owner-managers of business can improve the financial position through efficient and effective cash flow management. For example, minimize interest payment by matching the sources of finance and the activities of the business effectiveness of moving cash through business into sales and income that required a better business management (ABC Business Consulting, LLC, 2010).

3.7 Summary

This chapter has reviewed several important critical issues in the literature: first of all, it started with small business definitional issues. Throughout the review of the literature, there was no single definition which could always be applicable to small businesses. The issue of definition remains debatable between researchers, because researchers thought that the definitions of a small business could be confusing in certain criteria. In case of Libya, the Libyan government defined small business according to a number of factors such as the number of workers, turnover, and total of balance sheet (see 2.8). The most commonly used factor of these is the number of workers.

Secondly, it discussed the small business characteristics issue. According to the literature, characteristics of firms are considered very important factors for business growth. Through the review of the literature in this chapter it appeared that small businesses may face more difficulties than large firms to access capital markets.

Thirdly, it also discussed the characteristics of the owner-managers issue.

Researchers mentioned that age, education, experience and gender have widely contributed to the development and growth of small businesses.

Several researchers also noted that the number of start-up businesses can be affected by the age of the owners. The literature also shows that the gender of the owner-manager can have an effect on the growth of small business.

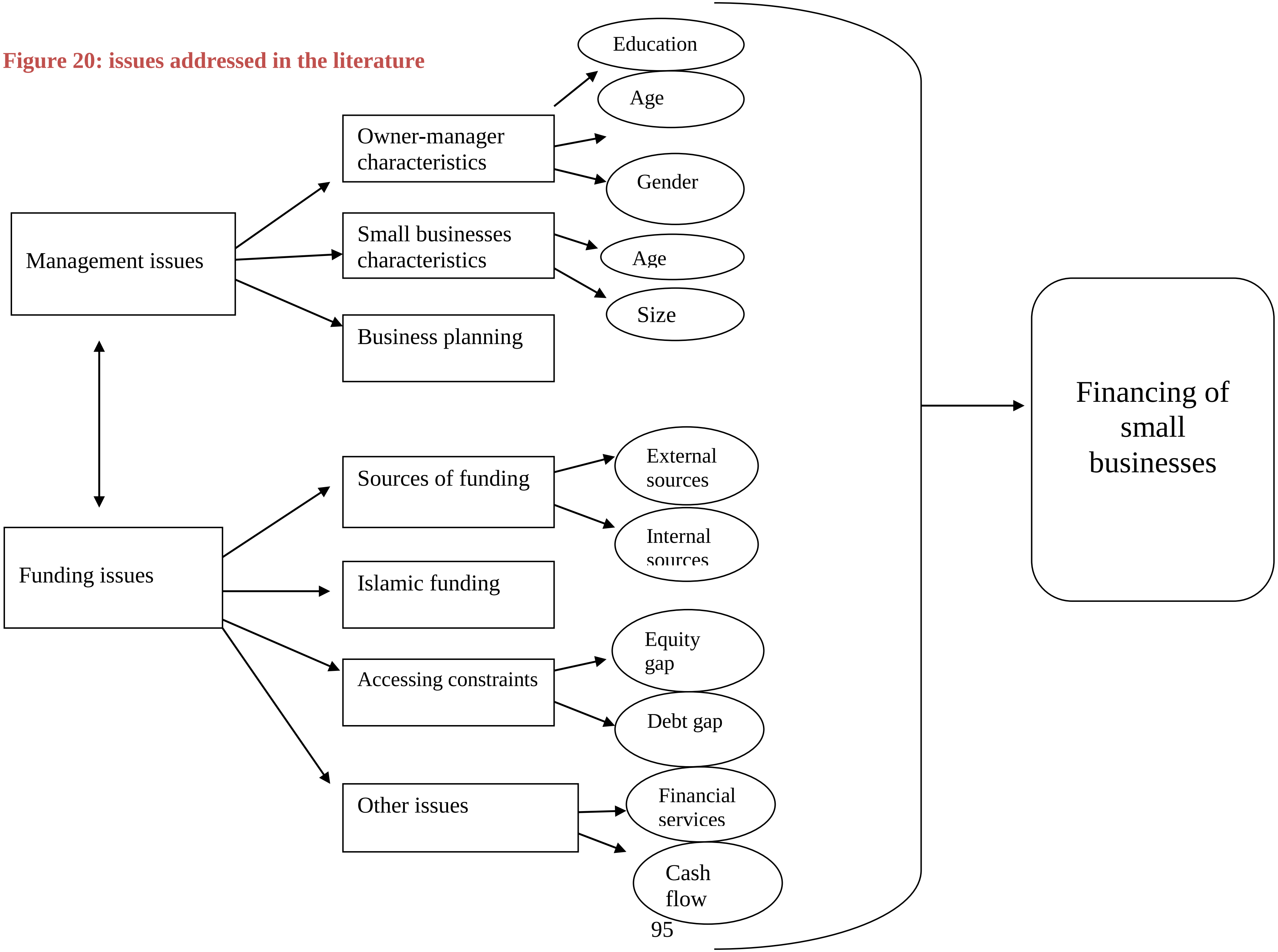
Fourthly, it focused on the financing of small business issues. The review of the literature in this chapter illustrated that owners of small business in many countries were heavily dependent on their personal savings, family, retained earnings and trade credit to establish or expand their businesses. The lack of adequate financial statements, accounting records, the absence of connections, or business relationships and business plans have contributed to emerging difficulties such as finding investors and creditors to lend to these small businesses. It also showed that formal and informal venture capital was one of the main sources of funding for the small businesses, particularly in the early stages of its establishment. In addition, the Islamic financing method has widely contributed to decreasing the problem of funding small business whether in the developed or developing countries.

A lack of financial security, credit history and collateral were the most cited obstacles facing small businesses when attempting to access external funding. The asymmetric information and adverse selection problems that exist between lenders and borrows were the fundamental reasons for the financing gap.

Fifthly, it explained the other related issues. Other issues related to the financing of small businesses were discussed in this chapter such as business planning, cash flow management and the access to financial services. The literature shows that the owners of small businesses are more likely to avoid preparing a plan for their business or they are simply unable to prepare cash flow forecasts due to a lack of education and experience. It illustrated also that banks and other external sources provider were unable to make funding decisions for small businesses due to lack of information such as a business plan. It is hoped that the findings of this research might possibly provide further insights for researchers in financing small businesses in Libya, in terms of uses, attitudes, sources and constraints. In addition, it could provide richer information about the financing of small businesses in one of the developing countries within which there is often little information in the literature.

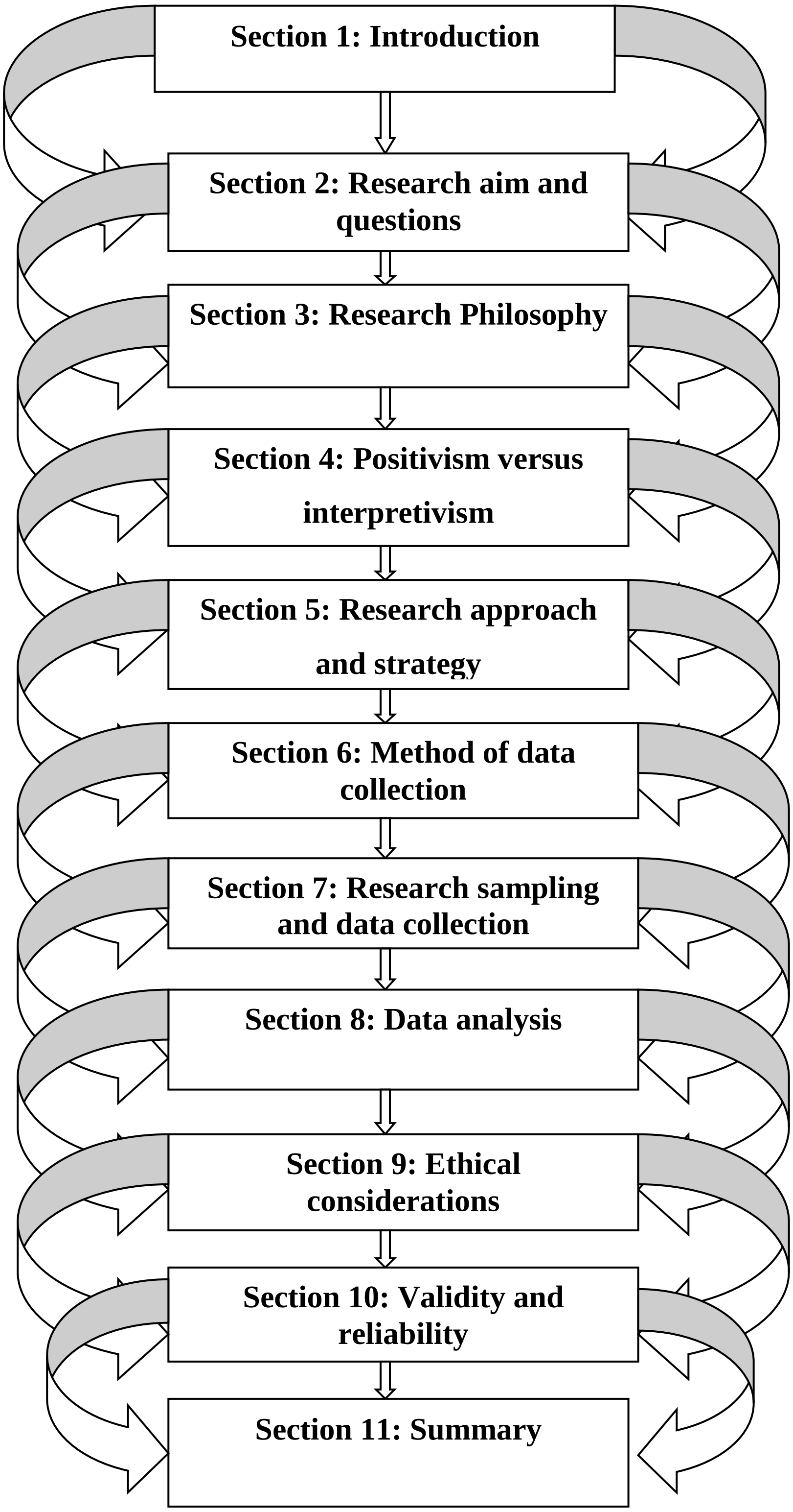
However, all generic issues for small business funding in any country have been addressed in this chapter. The refinement and exploration of these issues in the Libyan context is the aim of this study. Figure 20 summaries the issues that have addressed in this chapter.

Figure 20: issues addressed in the literature



Chapter 4: Research Methodology

Figure 21: Structure of the chapter 4



4.1 Introduction

The field of finance has generated a wealth of research in the last 40 years or so. The body of knowledge generated as a result has led to a considerable improvement in our understanding of capital markets and financial management issues. However, many new questions and unresolved problems have arisen. The research findings have, in a number of instances, brought about changes in working practices in financial institutions and companies (Ryan, Scapens & Theobald, 2002; Smith 2003). It is anticipated that by achieving the following aim, this research will contribute to these areas of knowledge and working practice.

4.2 Research aim and objectives

This research aims to explore the funding of Libyan small businesses in terms of sources, uses, attitudes and constraints, and to make tentative policy recommendations.

4.2.1 Research objectives:

There are five research objectives associated with the research aim which are:

- To explore ways in which small businesses in Libya are financed.
- To interpret the difficulties and constraints that small business owner-managers in Libya face with regard to raising finance.
- To explore the ways in which owner-managers of small businesses use financial information for making decisions.
- Develop a model highlighting problems specific to Libya in the financing of small businesses that require to be addressed.

- To make tentative recommendations concerning the forms of small business finance and support that will be facilitate support future Libyan economic growth development.

Methodology is important in research; it provides the researcher with guidelines as to how the research should be conducted. In other words it is an approach or method to accomplish something which starts with defining what is to be accomplished and how it is to be accomplished. It is generally accepted that almost every type of research, regardless of its nature and purpose, is concerned within two approaches with a third way being a hybrid combination of the two. The two being: qualitative and quantitative methodologies[2]. The third approach (triangulation) is one which makes use of both approaches, particularly in situations where the nature of a given research warrants it. Essentially, the differences amongst the three approaches are to do with how the research project is designed with a view to gathering, analysing, and presenting data in one way or another, depending on the aims of the research (Fellows & Liu 1997; Sarantakos, 2005). Thietart et al., (2001, p.111) provided a comprehensive view into how a research design should be constructed and suggest that

> "*Constructing a research design consists of defining the means necessary to answer the research question: selecting data collection and analysis methods and determining data types and sources including details of sample composition and size.*"

[2] A quantitative research relies primarily on the collection of quantitative data whereas qualitative research relies on the collection of qualitative data.

It is therefore of importance to any research project that a well-structured and supported methodology is developed at an early stage upon commencing the study.

This chapter presents the research methodology and design employed to achieve the aim and objectives of this research. This involves reviewing the research philosophy, the exploration of some of the methodological choices that are available to this project and the justification for selecting a certain methodology.

4.3 Research Philosophy

Saunders, Lewis, and Thornhill (2007) stated that the first point at the beginning of the research is precisely what you are doing when embarking on research. In undertaking any study there are a number of critical assumptions, particularly about what is real and how we can know this. Saunders et al (2007, p.101) stated that

> "*The research philosophy you adopt contains important assumptions about the way in which you view the world. These assumptions will underpin your research strategy and the methods you choose as part of that strategy. In part, the philosophy you adopt will be influenced by practical considerations. However, the main influence is likely to be your particular view of the relationship between knowledge and the process by which it is developed*"

Dainty (2007) confirmed the importance of establishing a philosophy of the research and orientation in direction of the inquiry. The assumptions of philosophical approaches supported a number of different research paradigms of social science that relates to ontology and epistemology.

4.3.1 Ontology

Ontology considers the nature of what is, of the types and structures of the objects, relations and properties in all area of reality. The concept of ontology[3] is defined by Crotty (1998, p.10) as "the study of being". It is a theory about social entities which concerned about what there exists to be investigated with the structure of reality (Bryman, 2004).

This study is situated within the broad interest of small business funding; it is most centrally concerned in human thought, feeling and perceptions of the concept of small business funding. Therefore, these are complex and personalised cognitive phenomena; and there are a number of factors that will influence it, such as beliefs, attitudes and experiences of the individual. Whilst it could be possible to conduct research on physical, including documents, it seemed more productive to investigate the experiences and attitudes of current small business owners towards the topic. The personalised nature which underlies perceptions, a relativist ontological position aligns most effectively with this study and the author's worldview. More Philosophical issues will be discussed in the next sections.

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[3] Guarino (1998, p.5) defined ontology as *"A logical theory accounting for the intended meaning of a formal vocabulary i.e. its ontological commitment to a particular conceptualization of the world, the intended models of a logical language using such a vocabulary are constrained by its ontological commitment. Ontology indirectly reflects this commitment (and the underlying conceptualization) by approximating these intended models".*

4.3.2 Epistemology

" *Epistemology is concerned with providing a philosophical grounding for deciding what kinds of knowledge are possible and how we can ensure that they are both adequate and legitimate*" (Crotty,1998, p. 8).

In terms of social research, epistemology must be considered whether in the design of the research project or in the determining of the knowledge that should be considered in relation to the phenomena being studied. Different epistemological stances have been identified in social science literature (positivism, interpretivism, etc). Objectivist epistemology for instance, is based on the notion that knowledge exists independently of any consciousness. Subjectivism, in contrast, is based on the notion that knowledge is imposed on the object by the subject (Crotty, 1998). Embedded in these and other epistemological stances are different approaches for conducting research and acquiring knowledge. The ontological and epistemological stances of researchers can lead to different views of the same social phenomena.

In this research the required knowledge was gained via the exploration of the environment within which the Libyan small businesses operate and through the information that was obtained from the sample's respondents. It is acknowledge that the understanding of one another has been one of the most difficult epistemological problems, at least since Descartes. At minimum this understanding requires some form of interpretation.

4.4 Positivism versus interpretivism

In terms of the philosophical concepts, it is useful to provide a brief overview about positivism and interpretivism to clarify the issue. The main characteristics and the differences between positivism and interpretivism are summarized by Levy (2006) in the following table:

Table 10: Broad definitions/explanations of positivism, interpretivism and epistemology

Epistemology	Positivism	Interpretivism
Nature of 'being' nature of the world	Have direct access to the real world	No direct access to the real world
Reality	Single external reality	No single external reality
‘Grounds of knowledge’ relationship between reality and research	Possible to obtain hard, secure objective knowledge	Understood through ‘perceived’ knowledge
	Research focuses on generalization and abstraction	Research focuses on the specific and the concrete

Source: Levy (2006, p.376)

4.4.1 Positivism

Jones (2008, p.3) states that the single characteristic of positivism is its "*advocacy of scientific rigour in all branches of knowledge (including philosophy)"*. However, a positivist philosophy often builds on "*a conception of scientific method*", and underpins that method by providing philosophical doctrines. The author (p.3) adds that the philosophy of positivism is perhaps to be "*systematic rather than fragmentary*", which may therefore result in scepticism about:

- Whether certain types of information have meaning.
- Reality and methods of arriving at it.
- Existence of different types of entities.

Johnson and Duberley (2000, p.39) summarise the main doctrines of positivism in management research as follows:

Table 11: the main doctrines of positivism in management research

Aim of research generation of causal laws	The aim of research should be to identify causal explanations and fundamental laws that explain regularities in human social behaviour.
Research approach unity of natural and social method	The method of the natural sciences is the only rational source of knowledge and should therefore be adopted in the social sciences. This implies preoccupations with: • internal validity; • external validity; • reliability; • operationalization.
Relationship of researcher with researched Independence theory and neutral observational language Value freedom Corresponding theory of truth	The observer is independent of what is being observed. Therefore the observer can stand back and observe the world objectively. The choice of what is studied, and how to study it, can be determined by objective criteria rather than by human beliefs and interests. Theory can be tested against irreducible statements of observation- the 'facts' of the situation. Research is concerned with producing accounts that correspond to an independent reality.

Source: *Johnson and Duberley (2000, p.39)*

Silverman (2000, p.8) pointed out that qualitative data provides a deeper understanding of social phenomena than that obtained from quantitative data.

Discussion given in this thesis is concerned with the exploration of thoughts, perceptions and attitudes, which means that positivism is not useful to consider as a philosophical approach in this study. However, the researcher will now move to another alternative paradigm (interpretivism) which may be more in accordance with this study.

4.4.2 Interpretivism

According to Saunders et al., (2007, p.106) interpretivism is "*an epistemology that advocates that it is necessary for the researcher to understand differences between humans in our role as social actors"*. In this case the researcher emphasises that there are large differences between people and objects, when carrying out research. The characteristics of the interpretive approach have been summarised by Carson, Gilmore, Perry, and Gronhaug (2001) as follows:

- It is borrowed from a series of approaches and qualitative perception.
- It addresses the characteristics of the research paradigm on the opposite side of the continuum from positivism.
- It gives the deeper understanding in research about what is happening in a given context.
- It embraces consideration of different actors' perspectives, multiple realities, taking account of the contexts under study (Carson et al., 200l).

Orilikowski and Baroudi, (1991, p.15) examined the relationship between theory and practice and stated that in this interpretive research approach "*the researcher can never assume a value-neutral stance, and is always implicated in the phenomena being studied*". They added the researchers' previous hypotheses, values, beliefs, and attentions always mediate to build their investigations.

Some authors subscribe to the view that the interpretive approach is universal. Denzin and Lincoln (2003, p.33) stated that "*all research is interpretive; it is guided by a set of beliefs and feelings about the world and how it should be understood and studied* ".

This study is concerned to provide and develop understanding about the phenomenon under investigation, exploring the perspectives and experiences of the financing of small businesses in Libya. This places the study in the epistemological domain of interpretivism (Levy, 2006). This will often adopt the use of qualitative data.

Having reviewed the relevant key philosophical paradigms, the researcher will now move to discuss and highlight the methodological approaches and strategies that will be considered in this study

4.5 Research approach and strategy

The appearance of social sciences in the 20th century created the importance of selecting of ways to study humans, where understanding them is a significant issue and reflects their interpretation of the phenomena in their social world (Gill and Johnson, 2010).

In terms of research, there are diverse and pluralistic research approaches. However, there are a number of criteria associated with this diversity such as the purpose of the research, its research method(s), the focus of research, and its underlying research paradigm. Furthermore, research may aim to increase scientific knowledge (Sarantakos, 2005). Gill and Johnson (2010) explained the importance of determining the research approach in three pointes. Firstly, in indentifying the type of evidence which needs to be collected and from where and how it helps in answering the questions of the research? Secondly, in determining the research strategy, for example an inductive approach is more compatible to use in research with an interest in understanding a phenomenon instead of describing it. Thirdly, in adapting the research to cater to limitations, for instance to focus on understanding the phenomenon and knowing what is going on will help the researcher to explore whether there is a lack of previous knowledge.

However, for the design of any research there are methodological considerations (Walliman, 2005). In addition, the research methodology should be able to answer the research questions, and justify the criteria of the validity. Qualitative and quantitative methodologies have more credibility when they are applied within explicit criteria. The validity of these criteria may not always be absolute, but Lincoln and Guba, (2000, p.167) pointed out that the criteria for judging the reliability and validity of qualitative research "*rather is derived from community consensus regarding what is ' real', what is useful, and what has meaning*".

The inductive and deductive approaches will be discussed in the following section.

4.5.1 Inductive and deductive approaches

The interpretive method will often require a combination of induction and deduction to achieve a rigorous understanding.

4.5.1.1 Inductive approaches

Hussey and Hussey (1997) define inductive research "as a study of which theory is developed from the observation of empirical reality, thus general inferences are induced from particular instances, which is the reverse of the deductive method". Gill and Johnson (2010, p56) also stated that "inductive research involves moving from the plan of observation of the empirical world, to the constructor of explanations and theories about what has been observed". In other word, it involves learning by reflecting upon particular past experiences and through the formulation of abstract concepts, theories and generalisation that explain past, and predict future experience. An inductive approach starts by data collecting in order to develop theory according to the results from data analysis; the aim would be to understand what was going on. The result may be the formulation for a new theory, or may be end with the same theory (Saunders et al., 2007). An inductive approach refers to the development of theory that draws conclusion from empirical study (Bryman, 2008).

4.5.1.2 Deductive approaches

Hussey and Hussey (1997) defined deductive research "*as a study in which conceptual and theoretical structure is developed and then tested by empirical observation, thus particular instances are deducted from general inferences. For this reason, the deductive research is referred to as moving from the general to the particular*". Gill, Johnson and Clark (2010, p 46) stated that "*a deductive research method entails the development of a conceptual and theoretical structure prior to testing through empirical observation*". They divide the process of deductive research into four stages. These stages are as follows:

The author decides which concepts represent important aspects of the theory problem under investigation. Through the operationalisation of a concept it becomes defined in such a way that rules are laid down for making observations and for determining when an instance of the concept has empirically occurred. The process of operationalisation enables the construction of clear and specific instructions about what and how to observe. This enables the testing of hypothesis and theories by confronting them with the empirical data, which is then collected.

The outcome of the above is the process of testing, by which the assertions put forward by the theory or hypothesis are compared with the facts collected by observation.

Table 12: Comparison between deductive and Inductive approaches

Deductive method	Inductive method
Deductive testing of theory	Inductive development of theory
Explanation via analysis of casual relationships and explanation by covering - law.	Access to and description of, subjective meaning systems and explanation of behaviour through understanding.
Generation and use of quantitative data.	Generation and use of qualitative data.
Uses of various controls, physical or statistical, so as to allow the rigorous resting of hypotheses.	Commitments to research in, or access to, everyday settings, whilst minimise reactive the disruption caused by the research to those being investigated among the subject of research.
Highly structured research methodology to ensure explicability by other scientists.	Misnaming structured research methodology.

Source: Gill et al., (2010, p 65).

As was seen in the literature review in chapter two and three, the research focuses in knowledge about financing small businesses in the Libyan environment, and as noted Libya was closed to the world during the period 1993 to 2003, which makes Libya a fertile area for many studies. The aim is to explore the financing of small business in Libya, in terms of sources, uses, attitudes and constraints. However, this focus is reflected in the title of the research which addresses the issues previously mentioned.

> "*An exploratory study is a valuable means of finding out 'what is happening; to seek new insights; to ask questions and to assess phenomena in a new light' (*Robson, 2002 in Saunders et al., 2007, p.133).

Saunders et al., (2007) summarized the principal ways of applying exploratory research into the following three points:

- A review of the literature.
- Interviewing 'experts' in the subject.
- Conducting focus group interviews.

This research study is more compatible with the inductive approach rather than the deductive. The justification of choosing an inductive for understanding the perceptions and feelings of the owners of small businesses and lending managers in the main banks in Libya is that this is in line with constructivism philosophies. In addition this study is not concerned with deducing hypotheses, or practical or theoretical testing of hypotheses, or expressing hypotheses in operational terms (Saunders et al., 2007; Walliman, 2006). The research does not seek to just describe the small businesses in Libya, but also to explore the reality of the funding of small businesses in Libya in terms of uses, attitudes, sources and constraints from the feeling and perceptions of the owner-managers of small businesses and also from the managers of lending in the main banks in the Libyan context.

The strategy of this research will use qualitative methodology, "the *qualitative researcher uses inductive analysis, which means that categories, themes, and patterns come from the data*" (Denzin & Lincoln, 1998, p.47). Strauss & Corbin, (1990, p.24) stated that the grounded theory method employs as "… *a qualitative research method that uses a systematic set of procedures to develop an inductively derived grounded theory about a phenomenon*".

Grounded theory is most accurately as a research method in which the theory is developed from the data, rather than the other way around. That makes this is an inductive approach, meaning that it moves from the specific to the more general.

The key advantage of grounded theory is its "*Inductive, contextual, and process based nature*" (Andrade, 2009, P.46), which proves that these characteristics are useful for interpretive researchers. The main objective of grounded theory is to expand an explanation of a phenomenon by identifying the key elements of that phenomenon, and then categorising the relationships of those elements to the context and process of the research. In addition, its goal is to go from the general to the specific without losing sight of what makes the subject of a study unique. In other words, it is often perceived as a method which separates theory and data but others insist that the method actually combines the two. As an approach to the research, in the concept of research grounded theory in terms of uses, it is divided into two methods. In the first method grounded theory might be used as a research philosophy, when the researcher moves towards a research question without theoretical context or a priori research, starting from a blank sheet. The second method, grounded theory may be employed as a technique for data analysis that includes the practice of constant comparison (Douglas, 2003). A major justification for using a grounded theory is that the focus of research is under-researched and that too little is known to drive the selection of specific theoretical frameworks as a basis for the study. Instead, theory is developed on the basis of the findings that are revealed from the data. For this reason, a grounded theory approach is often used in exploratory research. Although there are a number of characteristic of the grounded theory approach which relate to this research, the methodology of this study did not follow that of grounded theory, but rather was informed by its concepts and philosophy.

After discussion given to the research approach and strategy of the study, another key issue in the design of research is the distinction between qualitative and quantitative research. Therefore, the researcher will now discuss this approach.

4.5.2 Qualitative and quantitative research

> *"Nevertheless, the most significant, most common and also fundamental distinctions in social research are qualitative versus quantitative research. Almost every type of research, regardless of its nature and purpose, is concerned within either a quantitative or a qualitative strategy, but there are many more types, categories and names of research conducted within these two contexts"* (Sarantakos, 2005, p.10).

Crotty (1998) asked two important questions; what methodologies and methods will be used in the research we propose to do? And how do we justify this choice and use of methodologies and methods? Crotty (1998, p.2) explores this and answers the second question as follows:

> *"Justification of our choice and particular use of methodology and methods is something that reaches into the assumptions about reality that we bring to our work. To ask about these assumptions is to ask about our theoretical perspective".*

Qualitative research is a methodology concerned with answers to questions which begin with "how" and "why", and as well it is concerned with developing the explanations of social phenomena that exist (Hancock, 1998). In addition, the qualitative approach aims to help us to understand that the social world is a human construct, and we can only understand the reality from the prospective participants of social interaction (Sarantakos, 1998).

Allan (1991) states that in qualitative research the researcher should be more flexible in approach, rather than stringently adhere to a technique. In addition, this flexibility will facilitate a closer understanding of the perspectives of the participant sources.

Bryman (2004, p.266) adds that a qualitative methodology "*tends to be concerned with words rather than numbers*". However there are three further characteristics that were particularly noteworthy which are as follows:

- Inductive research is concerned to view the relationship between the research and theory.
- An interpretive epistemological approach is concerned to understand the social world and to explore the world during interpretations of the concepts which are gathered from respondents' sources.
- A constructionist ontological approach is concerned with social properties and outcomes of the interactions between individuals, rather than phenomena 'out there'.

Qualitative research is concerned with expanding theory inductively, and considers the dynamic nature of the context of the existing phenomenon, rather than creating static analysis of situational variables (Brayman, 2004).

Quantitative methodology is predominantly used to verity data collection methods such as questionnaires or data analysis technique such as 'statistics or graphs' that uses numerical data. Similarly, qualitative methodology is used predominantly as a synonym for different collection methods, but it also makes use of interview techniques, categorising data for data analysis procedures, using non-numerical data (Saunders et al., 2007).

Allan (1991) suggests that a qualitative approach is applicable when the reality of social interaction needs to be considered from an individual's perspective.

Silverman (2000, p.8) noted that there are some areas of social reality, which we cannot measure using statistical techniques. The same author added that there is a common belief that the method used by qualitative researchers provides a ' *deeper*' understanding of social phenomena, rather than the quantitative method.

However, in terms of qualitative and quantitative approaches there are some advantages and disadvantages relating to using either method. In terms of qualitative research, the advantages of using this method are that it has the ability to explain respondents' meanings, to look processes of change over time, and amend new ideas and issues as they emerge. The data gathered in the qualitative method is more direct rather than constructed. However, the process of data collection and analysis in this method is considered highly laborious, and frequently generates much stress.

The result of using quantitative research is that the sample size in this method is often larger than that used in qualitative method, which covers a wide range of cases in an economical and efficient manner. This produces a broad generalisable set of findings. However, the quantitative method is not effective in terms of understanding of the importance that people attach to notions (Patton, 1990).

Given this research context, the discussion in this research and the paradigms within which it is being undertaken, the qualitative research offers much value. In addition, the qualitative methodology research will allow such perceptions and meanings to be explored.

Recently, in social research the qualitative approach has been widely used (Alasuutari & Brannen, 2007) It has also been widely adopted in the field of small business; for example see Burke & Jarratt (2004); Gilmore, Carson, & Grant, (2001); Dobbs & Hamilton,(2006); Freeman, (2000); Fielden, Dawe, & Woolnoughg, (2006); Jocumsen, (2004); Mambula & Sawyer, (2004); Ritchie and Lam, (2006); Stokes, (1999).

However, the aim of this research is focusing upon financing small businesses in the Libyan environment in terms of sources, uses, attitudes and constraints funding. This study will focus to explore two parts of participants, owner-managers of small business and senior managers of lending in banks. It focuses to study opinions and culture, which means it, will adopt the qualitative method, because it will be inductive rather than deductive. In addition it focuses on meanings, perceptions and experiences, and is based on subjectivity rather than objectivity.

4.5.3 Choice of methodology and justification

There are arguments for and against both the quantitative and qualitative types of methodology, but more important to the research process is the framework that is developed to carry out the study and the supportive argument behind the choice of methodology.

Silverman (2000, p.1) examined the best methodologies for research, qualitative or quantitative, and argued that the choice among research methods is heavily depends on research question(s), objective(s), and "*what you are trying to find out*". Given this research context, the discussion in this research and the paradigms within which it is being undertaken.

The researcher followed the suggestion of Flick et al., (1991), who stated that the choice of methodology in favour of qualitative research is made under the following conditions:

> "When the standard of knowledge in the area of the research subject is inadequate and provides no sound basis for a quantitative study.....the qualitative research here takes the form of an exploratory study" (Sarantakos, 1998, p.125).

However, pilot interviews were conducted before the main study in order to test any difficulties or misunderstanding relating to the interviews. It was considered that this formed the basis for the current research, where an exploratory investigation would be performed and a qualitative element would become more realistic once initial data had been collected. Therefore, in attempting to place this study within the various recognised categories of research methodologies, it is believed that a qualitative approach would be appropriate for this research. The justification for selecting this approach is based on the above discussion and following reasons:

- The use of bank finance to fund small businesses is considered a relatively new in Libya, and as such there were a limited number of such small businesses that rely on banks to finance their activities and this therefore limits the size of the sample population.

- The researcher believes that on the basis of his previews experience, the type of data collected to achieve the aim and objectives of this research will provide more reliable results if a qualitative approach is used rather than than produced by a quantitative approach.

- Qualitative methodology research will allow such perceptions and meanings used by the small business owners to be explored.
- This study involves studying feeling and opinions of participants (owner-managers of small businesses and senior lending managers in banks) and the business environment (culture) within which these organisations (small businesses and banks) operate.

In summary, this study focuses on studying meanings, perceptions and experiences, and is based on subjectivity rather than objectivity and inductive rather than deductive.

4.6 Method of data collection

The following section outlines the method used to collect the research data.

4.6.1 Interviews

Interviews[4] are very widely used as a data collection technique in social research. The interview is one of the most effective means of data collection and has the advantage of direct contact with interviewee. Thus, this method is an effective way to collect a particular data that will tackle the research questions and achieve the aim and objectives of the study. The following are some of the advantages of the interview technique as classified by Sarantakos, (1998):

- Flexibility: interviews are designed to meet many different situations.
- High response rate: A high response rate can be achieved from interviews.

[4] According to Alasuutari and Brannen, (2007) the first scientific interview goes back to 1912, with Bowley’s study of working- class conditions in five British cities.

- Easy administration: respondents very easily understand the interview questions.
- In interviews, the interviewer has the capacity to correct misunderstandings.
- The interviewer can take control over the order of the questions; because the respondents have no chance of knowing which question comes next.
- With interviews the researcher take control over the identity of the respondents. When the interviewer uses interviews, the identity of the respondent is known; this is not available in other methods.
- In interviews, the interviewer can take control over the time and of course can (mutually) arrange the date and place of the interview.
- In interviews, the interviewer can use complex questions, because he or she can assist the respondent to understand these questions.
- In interviews a longer length of time for data collection is more acceptable than with other methods.

In certain types of interview, interviews may be highly structured and formalised, with the interviewer using the standardised questions for each respondent. Sarantakos (1998, p.247) observed that the research topic and purpose, resources, methodological standards and preferences and the type of information sought are very important factors in determining the degree of structure degree of interviews.

According to Bernard (2000) and Saunders et al., (2007) there are three types of interviews; unstructured interviews, structured interviews and semi-structured interviews.

4.6.1.1 Unstructured interviews

Unstructured interviews are used to explore in depth a general area in which the researcher is interested. According to Saunders et al., (2007) in unstructured interviews the interviewee is given the opportunity to talk openly about events, beliefs and behaviour in relation to the topic area.

Sarantakos (1998) stated that in unstructured interviews there are no restrictions on the wording of the interview questions, the order of interviews or the questions schedule. The same author added that "*the structure of unstructured interviews is flexible and the restrictions minimal, being presented in most cases in the form of guides rather than rules. This type of interview is mostly used in qualitative research.*"

4.6.1.2 Structured interviews

This type of interview depends on reliable methods and highly structured interview conduct. According to this type of interview, the interviewer administers the questionnaire, and the researcher reads out each question, after which they record the response on a standardised schedule, with pre-coded answers (Saunders et al., 2007).

Generally, qualitative interviews follow the criteria below which were suggested by Sarantakos.

Sarantakos, (1998) classified the important criteria which differentiate between qualitative interview approaches as follows:

- Qualitative interviews use open-ended questions only.
- Qualitative interviews are predominantly single interviews.

- The question structure in interviews usually is flexible and soft, and of course the researcher can change question order or add additional new questions if necessary.
- Qualitative interview gives the interviewer more freedom to present the questions, and if required change words.
- Qualitative interviews use processes and methods which reflect the nature of the research aim.
- Qualitative interviews are concerned with studying everyday events.
- Qualitative interviews in most situations aim at developing data dependent on theory.

It seems that a more unstructured approach would be more suitable for qualitative study.

4.6.1.3 Semi-structured interviews

In this type of interview the researcher should prepare a list of questions and of course have a list of topics, to cover all questions and themes. However these may vary from one interview to another (Saunders et al., 2007).This means that the researcher may drop any specific or generational context question in relation to the research subject or add more questions.

Bernard, (2000, p.191) suggests that

> "*Semi-structured interviewing works very well in projects where you are dealing with managers, bureaucrats, and elite members of a community, people who are accustomed to efficient use of their time. It demonstrates that you are fully in control of what you want from*

> *an interview but leaves both you and your respondent flexible to follow leads".*

Patton (1990) pointed out that there are three types of qualitative interviewing. First, in this type of interview the actual wording of questions usually is not determined in advance and the informal conversation interview relies entirely on the spontaneous generation of questions and the normal flow of the interactions. The second type is the general interview guide approach. A general checklist for all relevant topics will be covered in this interview. In this type also it presumes that no set of standard questions are written in advance and common information should be obtained from each interviewee. The standardised open-ended interview is the third type. It consists of a set of questions which are carefully worded in advance and arranged to take the information required from each interviewee through the same sequence and using the same words.

This research is designed to deal with owner managers of small business, and mangers of lending in the number of main banks to collect their opinion and concepts about financing of small businesses in Libya. Therefore, semi-structure interview was adopted to collect the data of this research. This format seems to be suited for discussion of the topics of the research in an exploratory manner.

4.7 Research sampling and data collection

Having discussed the research strategy of this research, the following paragraphs reviews and describes the sampling and data collection strategies that were adopted in this thesis. In this study it would be necessary to select a sample of businesses. This should provide an abundant flow of data, contributing to deliver findings chapter which will be discussed in depth after this chapter.

4.7.1 Research sampling

For most research projects it seems to be not possible to collect or to analyse all accessible data, because of time and resources restrictions hence the need to sample (Saunders et al., 2007). When designing a project, the type and number of the respondents is considered one of the most significant issues (Sarantakos, 1998). Sometimes it is very easy to collect and analyse data from a case or a group member. This is called a census.

According to Saunders et al., (2007) a range of methods provided by sampling techniques will help in reducing the size of data needs to collect by the researcher. For example, only data from a subgroup rather than all possible cases or elements is considered. Sarantakos (1998) classified the reasons for sampling as follows:

- A complete coverage of the population is beyond the scope of the research.
- In a sample survey complete coverage may not offer a tangible advantage.
- In studies which depend on samples, less time will be used and quick answers will be produced.
- Usually sampling is more efficient and cost effective as it involves less general costs and people.
- A sample offers more details and gives a high degree of accuracy, although the number of units used is relatively small.

However, there are two essential types of sampling, probability sampling and non-probability sampling.

4.7.1.1 Probability sampling

This type of sampling is used when the number of the population is known and a sample is usually not equal for all cases. In this case, it is possible to answer research questions and to achieve the objectives of the study. This type of sampling requires the researcher to estimate statistically the attributes of the population from the sample. Often this type of sampling is joined with a survey and experimental research strategies (Saunders et al., 2007).

4.7.1.2 Non- probability sampling

In this type of sampling the probability of each case is usually selected from an unknown population. In order to answer research questions and achieve research objectives, it requires making statistical inferences about the attributes of the population (Saunders et al., 2007).

According to this type of sampling the researchers decide which sample should be chosen and of course which is used in observational research, exploratory research and qualitative methods (Sarantakos, 2005).

Sarantakos (1998) classified the characteristics of qualitative sampling as follows:

- Qualitative samples are relatively small.
- Qualitative sampling is often dependent on saturation and in most situations it uses no statistics.
- Qualitative sampling is easy to manage in terms of time and contractibility.
- The size of qualitative sampling is not statistically determined.
- Qualitative sampling usually happens during data collection.

- Qualitative sampling treats respondents as persons.

So far the context of this study Libya went through a long period of international economic sanctions which lasted more than 10 years. This isolation has resulted in a lack of information about the Libyan economic environment causing problems, such as a lack of knowledge about the whole population. However, associated with this, there was a problem in defining what the sample population should consist of. According to the nature of this study as an exploration study, non-probability samples was selected from the three main sectors of small businesses in Libya; services, trade and manufacturing. Burton (2000) pointed out that if the study is exploratory and firms prove difficult to find then non-probability sampling strategy will be acceptable.

> *"In non-probability sampling the subjective judgements of the researchers are used in selecting the sample. Clearly, this could result in the sample being biased. Non-probability samples are particularly relevant in exploratory research (*Remenyi, Williams, Money, & Swartz, 1998, p.195)".

The snowball technique was used to select the interviewees. Remenyi et al., (1998, p.194) defined a snowball sample as, "*one where the researcher uses an informant to help him or her find the next informant".*

Bryman (2004) stated that "*snowball sampling is a form of convenience sample, but it is worth distinguishing because it has attracted quite a lot of attention over the years".*

In terms of this approach of sampling, the researcher makes contact with a small group of people and then employs these to create other contacts.

4.7.2 Sample selection

It has been said that in qualitative inquiry there are no rules determining the size of the sample (Patton, 1990, p.184). It depends on some factors such as, what the researcher wants to know, the purpose of the inquiry, what will be useful, what is at stake, what will have credibility, and the availability of time and resources. Remenyi et al., (1998) pointed out that the determination of the sample size is considered a complex operation. The same authors added that it depends on some factors which are: type of sample, time, costs, and accuracy of estimates, required variability in the population, and confidence with which generalisations about the population are made.

> *"In qualitative studies, theoretical sampling does not resort to numerical boundaries to determine the size of sample; instated, subject selection will cease after saturation has been reached. Similarly, when purposive sampling or accidental sampling procedures are used, it is left up to the researcher to decide when a number of respondents are considered sufficient* (Sarantakos, 1998, p.157).

Roscoe (1975) for example noted that the number thirty is considered as an appropriate sample for most qualitative research. Given that the sample size should reflect what the researcher wants to find out and why, how the findings will be used and what time and resources will be available. Lincoln and Guba (1985, p.202) recommend a sample selection and stated,

> *"In purposive sampling the size of the sample is determined by informational considerations. If the purpose to maximize*

information, the sampling is terminated when no new information is forthcoming from new sampled units; thus redundancy is the primary criterion".

In this study, sample has been selected according to the suggestion mentioned by Roscoe above. Therefore, two groups were identified as stakeholders for this research in order to ensure the highest quality data that will achieve its aim and objectives. The first group consists of twenty seven small private companies and the second group consists of a number of national banks based in Libya. The sample was selected from the business population based in both the capital city Tripoli[5] and Misurata[6], the third city of Libya. The sampling strategy was qualitative using a snowball technique. The sample was designed to reflect the diversity of the business population and owner-manager experience and to generate the maximum richness of data. The number of sample was also based on the literature review of past related studies carried out in this area[7]. The sample was constructed as follows:

[5] Tripoli represents the largest and most diverse small business sector in Libya.
[6] Misurata is considered to be the city of trade and industry in Libya.
[7]Mahmood (2000) interviewed 40 lending mangers in Malaysian banks using semi-structured interviews.
Doern (2008) studied understanding barriers to small business growth from the perspective of owner-managers in Russia and used samples of 27 respondents.

Table 13: Research sampling construction

Sector Approx. No.	[8]Manufacturing 16752	Trade 79698	Services 17539	Total 113989
Less than five years	3	3	3	9
From five to ten years	3	3	3	9
More than 10 years	3	3	3	9
Total	9	9	9	27

Source: compiled by the author (for more information see 4.7.3)

One of the objectives of this research is to find out the constraints faced by small businesses in accessing funding. The researcher's past experience working in the banking industry and the literature review show that (see 3.4 & 3.6) smaller firms in the early stage of their establishment have more difficulties and limits in access to finance than larger firms and well established businesses. Therefore, the researcher has decided to construct the sample to include companies in their early stage (less than five years), medium age (five to ten years) and well established business that started up more than ten years ago. As mentioned earlier that Libyan government seeks to create alternative sources of income therefore, three main sectors (except oil) were selected to explore in this study manufacturing, trade and services. The sample included both male and female owner-managers (see 3.3.4). Regarding lending managers in banks, the researcher arranged appointments by telephone before conducting the interview.

[8] Public Authority for Information Report (2007)

Table 14: Participant characteristics

Name	Gender	Education	Type of business	Number of workers	Age of business (years)
SB1/Joma	M	Secondary	T	6	8
SB2/Yusef	M	BSc	T	15	15
SB3/Alsidige	M	Secondary	Mf	5	5
SB4/Jamal	M	Secondary	T	10	12
SB5/Mansour	M	BSc	Mf	13	17
SB6/Abushiba	M	BSc	Mf	7	2
SB7/ Marie	M	BSc	Mf	10	6
SB8/Mahmud	M	BSc	Mf	25	14
SB9/Omar	M	Secondary	Mf	10	9
SB10/Ahmed	M	BSc	Mf	20	1
SB11/ Nasser	M	Diploma	Mf	8	2
SB12/Ali	M	Diploma	Mf	18	16
SB13/Abrahim	M	BSc	S	10	14
SB14/Ismaiel	M	Secondary	S	16	1
SB15/Najat	F	BSc	S	25	9
SB16/Khaled	M	BSc	S	17	4
SB17/Alnaas	M	Diploma	S	22	10
SB18/Mostafa	M	Diploma	S	3	4
SB19/Asalhi	M	Diploma	S	20	6
SB20/Hameed	M	BSc	S	19	18
SB21/Kareem	M	BSc	S	20	6
SB22/Ataher	M	Diploma	T	10	4
SB23/Mukhtar	M	BSc	T	20	3
SB24/Amer	M	Diploma	T	10	9
SB25/Salem	M	BSc	T	5	8
SB26/Sanaa	F	BSc	T	5	4
SB27/Mohamed	M	BSc	T	16	17

T= Trade Mf= Manufacturing S= Service

4.7.3 Research and data collection methods

Having discussed the sampling strategy in the previous section, the following sections examines the pilot study and the method used to collect data; namely, the interview.

4.7.3.1 The pilot study

The pilot interviews were designed to test the interview structure, the question design and any difficulties or misunderstanding relating to the interviews. Sarantakos (2005) recommends that the pilot study is considered as a rehearsal for the main study. The author adds that they are concerned with addressing any problems that relate to the whole study. To gauge how effective various aspects of the interview were, a pilot study was preformed prior to the conduction of interviews. This involved a preparation of list of questions which includes the questions of the interview that were collected from the previous researches and literature. In order to identify whether there was any confusion or misunderstanding in the questions and prior to their translation from English Language into Arabic, the questions were distributed to seven Arabic and non Arabic students at the Universities of Gloucestershire and Nottingham Trent. The translated document was reviewed by PhD student specialists in the English language area. To verify the accuracy of the transaction, the translated questions were back translated into English. When the researcher finally felt that the meaning of all questions had the same sense with both languages, the researcher tested the questions with a number of Libyan PhDs students at the University of Gloucestershire who had direct experience of a small business in Libya.

The main pilot interviews were conducted in December 2007, with five participants when the researcher was in Libya. The sample in the pilot study was selected from trade sectors, manufacturing and services. Before starting the interviews the researcher contacted the respondents by telephone and arranged an appointment for interview. Before the interview started the researcher introduced himself and took some time with respondents in discussing different issues that related to business in Libya and life in general. The researcher mentioned to the respondents that all the information mentioned during the interview would be highly confidential.

Feedback from these interviewees was positive, and the researcher found that using interview techniques for data collection would provide rich information. The researcher did discover that it would be useful if some questions about Islamic finance were added to the questions; this was due to the fact that most of the respondents in the pilot study were talking about it. In July, August and September 2008, the researcher added some questions about Islamic finance and decided to test the questions of the interview again with two PhD students who have a small business in Libya. Both of these interviews were positive, and the questions were clear and easy to understand, which confirmed to the researcher that the interviews would provide rich information.

4.7.3.2 Data collection technique

The explanation of the process of data collection is important in order to understand the development of the entire research, and it starts with determining the sample of businesses to be studied. The small businesses chosen for this study are from three sectors: manufacturing, trade and services, and the banks are from different kinds of banks, commercial, specialised and private.

In this study the researcher contacted the Libyan Chamber of Trade and Industry to: firstly, select small businesses according to the relevant sector, services, trade and manufacturing, of less than 26 employees. Secondly, to arrange appointments with small groups of people (owner-managers of small business) to conduct interviews, and then the researcher used those as a network to establish contacts with other participants until all interviews were completed.

The researcher obtained letters from Gloucestershire University, and from the Libyan Embassy (Cultural Affairs Department London) as approval and support to carrying out this research in Libya. Another letter was prepared by the researcher to explain the research being carried out and why interviews were needed to complete this research.

In terms of this study, the researcher uses an interview technique and qualitative elements are employed to collect the information. The use of qualitative interview data requires the researcher to consider the mode of production of this data. Kavale and Brinkmann (2009) consider this under seven topics. The researcher must be aware of the produces nature of the interview; it has been constructed as an event. It is also relational and conversational. It is produced between two people and therefore is a reflection of those individuals. Interviews are contextual and are heavily situated in time and place. Furthermore, interviews are also both linguistic and narrative. Only the knowledge that can be accessed in words is part of an interview, although there may be room for observation. It is widely accepted that interviews construct a narrative in an interview. What is the story they are going to tell? The pragmatic nature of the interview should also be considered. Has it been useful for the purposes of the research?

The interpretive method adopted by the researcher took these seven issues into account when conducting and interpreting the interviews.

The interview data collection for this research is divided into two phases: the first phase consists of semi-structured interviews (face-to-face) with twenty seven owner–managers of small businesses. The second phase consists of semi-structured interviews with five senior lending managers in the banks. The interviews were conducted during the period of July to September 2008 when the researcher was in

Libya. In addition, the qualitative sampling was designed to reflect the diversity of the business population and owner-manager experience and to generate the maximum richness of data. The sample also includes 25 male and 2 female owner-managers.

The interviews questions were both semi-structured and open in nature. The researcher used a question list as a guide for interviews. It was essential to avoid the discussions becoming confused and incoherent, and it included qualitative questions (see appendix1.3). Some of the questions were established in advance, adopted from previous research and the existing literature. The researcher also used a small questionnaire aid, which was designed to collect some relevant demographic information from each owner of small businesses, and to ask some closed questions. The interview questions were structured after discussions and tested with some owners of small businesses, and also with some PhD students who have small businesses in Libya. It also was pilot-tested with five owner-managers of small businesses in order to minimise the researcher’s anxiety and also to make the researcher aware of opportunities to ask questions that may bring up sensitive topics (Berg & Smith, 1985). Handler (1989) pointed out that conducting successful interviews might depend on the awareness of the researcher for the potential of exposing sensitive and difficult issues for the participants.

The interviews were conducted in a completely confidential environment. Face to face interviews built a good understanding which established a high degree of confidence between researcher and interviewee. The duration of each interview varied from 40 minutes to one and half hours. For cultural reasons the recording of interviews might have been difficult in some areas of the Libyan environment, but fortunately the researcher was able to use recording in most of the interviews. Just two of the thirty-two interviewees objected to the use of digital recording; in these cases the researcher used the short-note technique to collect data. Although using short-note technique could result in some loss of the respondent's words, the researcher tried to make all his efforts to inscribe all basic information. The recording of the interview is now the norm technique widely use for data collection. The objective of using digital recording was to ensure that all important points were captured. This technique would allow the interviewer to achieve a better understanding of the various contextual points, and impinge upon other issues being investigated. To eliminate the possibility of biases in the interview, the researcher made all efforts to be aware of the biases during interviews. Sekaran (1992) pointed out that the interview must establish rapport with the interviewee and ask unbiased questions to minimise the biases in responses. The interviews were conducted in the respondents, offices and to encourage the respondents to answer the questions easily and without distress the interview began with simple questions. The researcher adopted three conditions employed by Mahmood (2000) in his study which are:

- The respondent selected must have access to all information when it required.
- The respondent must understand what information the researcher seeks, and also understand what the researcher is thinking about it.
- The researcher must keep his/her interest in the respondent whilst conducting the interview. The researcher should seek to make the respondent understand that his /her participation and answers will help the researcher to achieve his/her goal.

During the same period of interviews, which was between July and September 2008, five semi structured interviews (face-to-face) were also conducted with lending managers in banks. These interviews were designed to explore to what extent the Libyan banks are supporting small businesses, and to investigate if there are any constraints facing banks during the process of lending to small businesses. In addition, the researcher thinks that gathering data from different sources and comparing it will give his research more credibility and richness to the information. The questions of the interviews were structured from previous research and also from the literature and by the experience of the researcher. The researcher's previous career was in banking and the interviews were arranged through personal networks.

All respondents before ending the interview were given the opportunity to mention any comments whether related to the subject or not he/she wished to add. However, after every interview, the researcher immediately reviewed the quality of data, and if any areas of vagueness were found, the researcher immediately sought clarification from the respondent again by phone. Patton (1990) mentioned that such a process will enhance the validity of the information.

Having discussed the sampling, data collection technique that would be considered in this study, the analysis of the data gathered will be discussed in the next section.

4.8 Data analysis

"*There is no single set of rules for the analysis of data from qualitative research interviews* (Cassell & Symon, (1994, p.24)".

When analysing data it is important to be familiar with developing themes to develop a deeper understanding during the comparisons and contrasts.

Jones (2008) argued that the analysis aspect in research is an important process for making sense of the overall picture and for seeing patterns and emerging ideas in the findings, and also giving meaning to the researcher and target readers.

Patton (1990) noted that the analysis of qualitative data is a technique involved in making sense of that beyond what the interviewee has actually said, identifying similar patterns, and integrating what the different interviewees have said. The same author added that the process of interpretation of the data collected is highly creative on the one hand; on the other hand it is also messy, time-consuming and frequently can generate a large amount of stress.

> *"Analysis of qualitative data is a painstaking process requiring long hours of careful work going over notes, organising the data, looking for patterns, checking emergent patterns against the data, cross-validating data resources and findings, and making linkages among the various parts of the data and the emergent dimensions of the analysis* (Patton, 1990, p.378,379)".

Sarantakos (1998) pointed out that there are three steps in the process of concurrent or preliminary analysis, which are:

a) data reduction: in qualitative research, data reduction involves careful reading of the recoded material, identification of the main themes of the studied process, behavior and so on, in addition, categorization of the material as the target of analysis. The rules of data reduction are governed by the objectives of the study and also by the theoretical assumption of the framework used, and it varies from case to case.

b) data organization: This is the method of assembling data around certain theme, in order to categorizing information in more specific terms and introducing the results in some forms such as graphs or charts.

c) interpretation: the process of interpretation involves identifying patterns and regularities, discovering trends, explanations and links between various ideas, then creating decisions and presenting conclusions related to the research questions.

As discussed earlier, there is no single set of rules used to analyse qualitative data. In terms of this research, semi-structured interviews were conducted, and the questions of the interviews were open-ended. The researcher also used a number of closed questions to collect very simple data. It is possible, however, to identify common features in the methods of analysis used across different studies, in order to provide a guide for the approach to analyse the data of this study. Miller and Crabtree identified four approaches to analyzing qualitative data, which are:

i. Quasi-statistical

The target of this analysis technique is turning the textual data into quantitative data that can be manipulated statistically. A number of authors advised that this approach is best illustrated in the technique of content analysis (Cassell & Symon, 1994; Patton, 1990; Sarantakos, 1998). In this technique the condensed data is turned into meaning, which allows the researcher to make useful comparison with the literature. The researcher starts analyzing the data by transcribing the interviews, and organising it into topics and files and then classifying it. The object of data classification is to target the facilitation of the research into patterns and themes within a particular setting (Patton, 1990).

“It is clear that content analysis is firmly within the quantitative, logical-positivist tradition, concerned with hypothesis-testing, generalizability and the separation of the researcher from the data for the sake of objectivity. As such, it should not be used to answer research questions which are essentially qualitative- ‘what does x mean to the interviewee, and why?’ however, elements of content analysis can be usefully applied in the early stage of some qualitative analysis (Cassell & Symon, 1994, p. 26).

ii. Template

In the template approach, the analysis of the interview data is through the use of an analysis guide or consisting of a number of themes or categories that are relevant to the questions of the research. Crabtree and Miller (1992) pointed out that the template analysis offers the researcher the chance to focus effort and time specifically on the text that is relevant to the research question. The template gains from research tradition, theory, preexisting knowledge and a summary of the text (Cassell & Symon, 1994). The template analysis technique is more open-ended, and it is revised many times until the themes emerge, and become interpreted qualitatively rather the quantitatively. In addition, the creation of codes in the template technique can be different from case to case. Doern (2008) noted that one of the potential disadvantages of template analysis is its failure to bring out the individuality and depth of participant responses. The same author added that, for this reason, the template is entirely usable for that process based on ‘how’ questions.

“Template analysis should be used to interpret the data, not just provide a summary description. As such, it seems to me entirely usable for the more

process-based how questions […] template analysis is only the first step in analysis. Once you have got a good template of themes, and the data coded to it, you have then to construct your account of what it is telling you (Doern, 2008, p.146)".

iii. Editing

Crabtree and Miller (1992, p.20) explain the use of term editing and stated: "*This style is termed editing because the interpreter enters the text much like an editor searching for meaningful segments, cutting, pasting and rearranging until the reduced summary reveals the interpretive truth in the text"*. However, the grounded theory is the best – known example of this aspect, which was formulated by Glaser & Strauss (1967) (Cassell & Symon, 1994). The same authors added that the best example of the editing approach is the grounded theory, because it presents guidelines for developing theory grounded in qualitative data. Strauss (1987, p.21) stated that the main feature of this approach is that the interpretations which emerge from the analysis of category or theme are repetitively compared with the initial textual data. This process is called 'constant comparison' in grounded theory; its target is to achieve a point of 'theoretical saturation' where no additional information emerges from the analysis which would widely contribute to discovering any more new things about a category.

iv. Immersion/crystallization

During this approach of analysis, the researcher immerses him/herself in the research subject over a prolonged period of time, and produces an account of his/her findings through analytical reflection and intuitive crystallisation of meaning. This cycle of immersion is repeated until the reported interpretation is reached (Mahmood, 2000).

In terms of this research, there are no specific models adopted in analysing the qualitative data. However, the researcher follows template approach, which suits the relatively focused nature of this study, and this approach were mentioned by Crabtree and Miller (1992), and also were used by Mahmood (2000) and Doern (2008), which is the template technique. The template approach uses the codes or guidelines as a technique to analysing data. It starts with codes from the basic set depending on previous theoretical understandings, and expanding the analysis through repeated reading of the interview transcripts.

4.8.1 Data analysis process

In this study, data collection, transcription and analysis were all conducted by the researcher. The data gathered was preserved in textual forms, digital recorder and through documents. In addition, some notes were taken during the interviews conducted.

The qualitative data analysis followed in this study is described as follows:

a) The first step was to audio-record all interviews digitally (only two participants rejected to use it). This was in order to facilitate transcriptions of the interviews. In order to minimize the loss of data in these two cases where interviewees declined recoding, after each interview notes were written up by the researcher, based on notes taken verbatim in the interviews.

b) The second step was a verbatim transcription (in Arabic) of the whole contents of the recorder interviews using a word processing computer program.

c) The third step constituted repeated cycles of reading and review of the transcribed data in Arabic that was accumulated during the in-depth interviews.

d) In order to produce a rich interpretation of the data the identification of themes was undertaken in Arabic. The themes were then afterwards translated into English.

e) Patterns and relationships were identified after studying all interview transcripts. In this step the researcher evaluated and examined the relationships between these patterns and categories and the questions being explored.

f) The next step constituted the identification of links between different data contexts. As such, many differences, common patterns, and anomalies that were present in the data, were identified.

g) In this step the researcher interpreted the meaning of all data and the implications for the answer of the research question being explored.

h) As a final step, conclusions were generated and presented as the final chapter of this research (For more information, see figure 22).

Figure 22: Interview analysis process

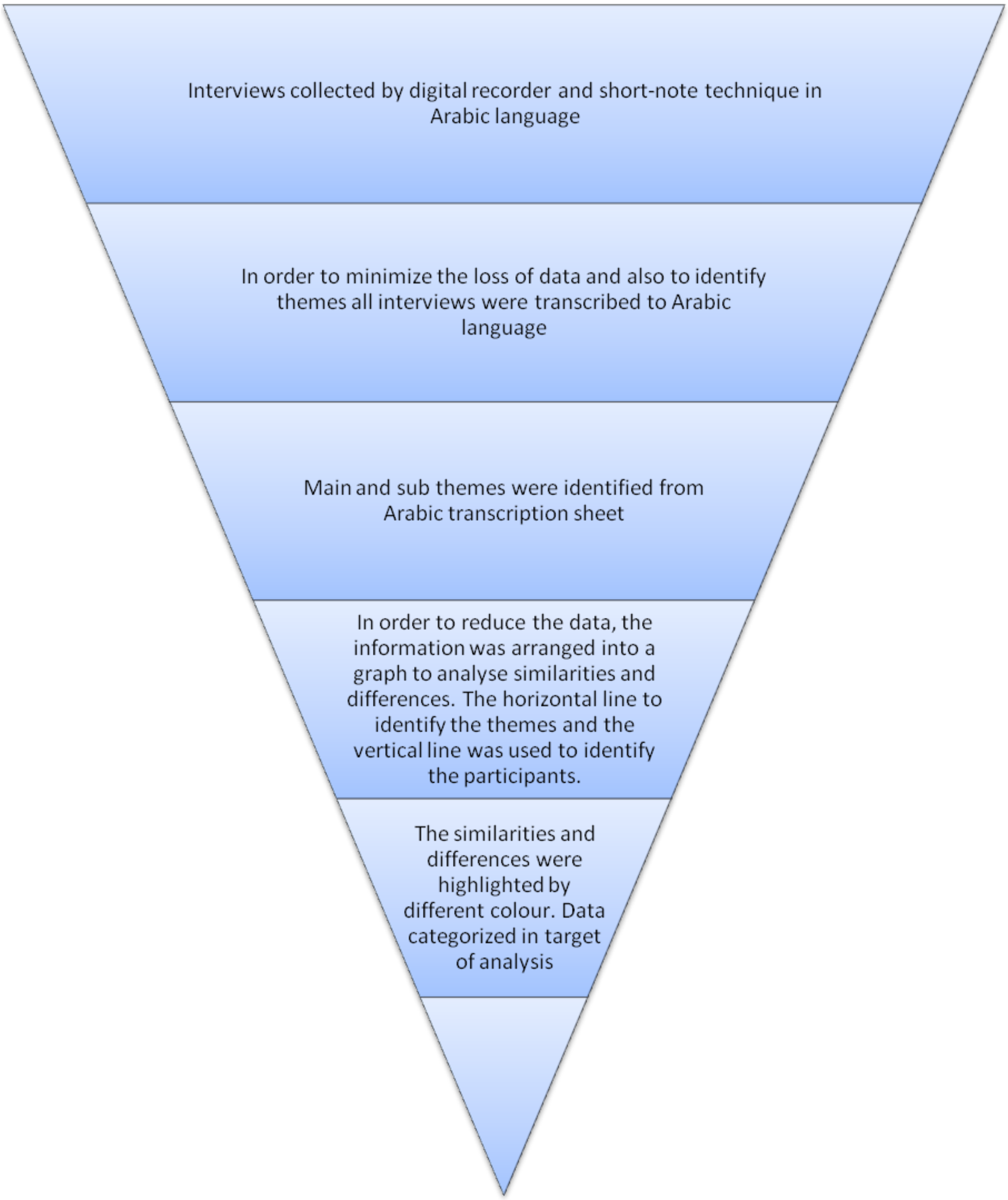


Table 15: Data transcription to Arabic (examples)

Participants	المواقف من الفائدة (Attitudes to interest)
SB1/Joma	كما تعرف الفائدة محرمة فى السلام لذلك لم احاول الأقتراض من المصرف
SB2/Yusef	الفائدة محرمة وأفضل حل لهذه المشكله كما دكرت المصارف الأسلامية
SB3/Alsidige	كما دكرت, عندما سمحت الدوله للتجار بأستيراد البضائع من خارج ليبيا, مبيعاتنا انخفضت تدريجيا الى اكثر من النصف , لأن البضائع الخارجية تعتبر رخيصة وجودتها عالية مقارنة بمنتجاتنا . بالأضافه أن سعر الفائدة على القرض المصرفى كان 7.5% وفترة ترجيع القرض كانت فقط خمس سنوات. بكل مصداقية الوضع اصبح صعب جدا. أنا أسف لأقول هذه العبارة, لكن استطيع القول بأن الدوله قضت على مشروعى.
SB4/Jamal	الفائدة محرمه فى الأسلام
SB5/Mansour	لا استطيع الأقتراض من المصرف بسبب مشكلة الفائدة- الفائدة محرمه فى الأسلام
SB6/Abushiba	حتى لو كان الحصول على القروض سهل لن اقترض من المصرف – لأنهم يتعاملون بالفائدة والفائدة محرمه
SB7/ Marie	أنا محتاج للأموال لتوسعة النشاط والمشكلة أن القروض المصرفية نسبة الفائدة بها عالية وفى نفس الوقت هى محرمه فى الدين الأسلامى
SB8/Mahmud	المشكلة فى الفائدة أنها مرفوضه من أغلب الناس وانا أعرف بعض الناس الذين أقترضو من المصرف وفشلو لذلك لااريد الاقتراض من المصرف
SB9/Omar	الفائدة محرمة فى الأسلام- الاقتراض من المصرف سيؤثر سلبا على سمعة مشروعى لذلك من الأفضل الابتعاد عنها
SB10/Ahmed	الفائدة محرمة فى الاسلام والكثير ممن اقترضو من المصرف لم يحالفهم النجاح
SB11/ Nasser	المشكلة مع المصارف الموجوده حاليا فى السوق الليبي. وهى القضيه المثيره للاهتمام. كما تعلمون, الفائده محرمه فى الشريعه الاسلاميه. لذلك تجنبت الاقتراض من البنوك.
SB12/Ali	الفائدة محرمة فى الأسلام لذلك من الفضل تجنبها
SB13/Abrahim	الفائدة مشكلة من جميع النواحى سواء من حيث الدين فهى محرمه كذلك سعر الفائدة مرتفع نسبيا
SB14/Ismaiel	الفائدة محرمه فى السلام ومشكلتى ليست مع التمويل فلدي المال الكافى لكن مشكلتى مع الحكومه – أنشأت شركة إنشاءات ولم أتحصل على عمل بسهوله لعدم توفر الضمانات الكافية وشركتى تعتبر حديثة نسبيا
SB15/Najat	أنا بحاجة للأموال لكن بسبب الفائدة لم لاأريد الأقتراض من المصرف
SB16/Khaled	حاولت الأقتراض لكن بسبب تحريم الفائدة تركت الموضوع
SB17/Alnaas	الفائدة محرمة فى الأسلام وحفاظا على سمعتنا وتطبيقا لديننا لانستطيع الأقتراض من المصارف الموجودة حاليا. كما تعلمون, عملنا يعتمد على السمعه, وعدد من الطلاب الذين يقررون الدراسة فى مدرستنا كل عام يعتمد على سمعة المدرسة.إذا أقترضت من المصرف فإن ذلك قد يؤثر على عملى كثيرا ,والذي قد يجعلنى أفقد سمعتى فى عملى. لأنه كما تعلمون, فى ثقافتنا الناس تتجنب التعامل مع الجهات والأشخاص الذين يقترضون من البنوك, لأنهم يعتقدون أن هذا المشروع تم تأسيسه بطريقه غير شرعية.
SB18/Mostafa	كما تعرف, المرتبات فى ليبيا لاتكفل معيشة جيدة فى ليبيا, لذلك أنا محتاج لمصدر دخل اخر لأضمن لعائلتى معيسة جيدة . لم أجد مصدر أخر يتفق مع الدين ليقرضنى المال المطلوب لأنشاء مشروعى. فى الواقع, لم يكن لدي أي خيار اخر, فقط الأقتراض من المصرف.
SB19/Asalhi	مشكلتنا مع الفائدة فهى محرمة وبالتالى لاادري لماذا لم تضع الدوله حل

	لهذا الموضوع
SB20/Hameed	الفائدة محرمة فى السلام ـالكثير ممن أقترضو لم يستطيعو ارجاع القروض بسهوله لذلك من الأفضل تجنب القتراض من المصرف
SB21/Kareem	الفائدة حرمها الأسلام لذلك لم افكر بل ولم احاول الأقتراض من المصرف
SB22/Ataher	الفائدة محرمه أولا المشكلة مع القروض المصرفية تتعلق بالفائدة ـ المصارف الليبية تفرض معدل فائدة عال على القروض وفى نفس الوقت فترة تجيع القروض قصيرة جدا. أنا أعرف بعض أصحاب المشروعات الصغري الذين أقترضوا من المصرف لغرض إنشاء مشروع فشت مشروعاتهم بعد سنتين أوثلاثه. لذلك لاأريد أن أضع مشروعى تحت خطر الفشل.
SB23/Mukhtar	الفائدة حرمت من قبل الشريعة الأسلامية
SB24/Amer	الفائدة محرمه نفى السلام ومن الفضل وضع حلول لها كالمصارف الأسلامية مثلا
SB25/Salem	الفائدة حرمت فى الدين الأسلامى وبالتالى لاأستطيع مخالفة الدين صحيح قد أكون محتاج الى التوسع لكن سأبحث عن حلول أخري كالشراكة مثلا
SB26/Sanaa	أنا محتاجة الى التمويل الأضافى وللأسف الفائدة محرمه لذلك قد ألجأ الى العائلة
SB27/Mohamed	الفائدة محرمه فى الدين

(24 participants) Interest is forbidden by Islamic law

As one respondent commented:

> *"The problem with the banks which are present in the Libyan market is the issue of interest. As you know, interest is forbidden by Islamic law. So, I have avoided taking a loan from banks due to the interest they charge"* (Nasser, SB, 11).

(2 participants) Protect the reputation

As one stated:

> "*As you know, our business depends on its reputation, and the number of students who decide to study in our school every year depends on the reputation of my school. So if I took a loan from the bank that might affect my business and that might make me lose the*

reputation of my business. Because as you know, in our culture many people avoid dealing with businesses that have borrowed money from banks, because they think this business is established in an illegitimate way (SB, 17)".

(3 participants) A high interest rate and the repayment period are too short (fear from fail)

As one commented:

"*The problem with the bank loan is the interest. Libyan banks charge a high interest rate and the repayment period is too short, so I know some people who took a loan from a bank to establish a business, however after two or three years their business failed, So I do not want to put my business at risk (*SB, 22)".

(2 participants) There is no any other choice

As Mostafa stated:

"*As you know, salaries in Libya are not high enough for our life, so, I needed another source of income to give my family a good life. I could not find another source of capital to lend me money to establish a business. Actually, I did not have any other choice, only a loan from a bank (SB, 18)".*

(1 participant) The Libyan market, interest rates and repayment periods are the main problems, as he stated:

> *"As I said when the government allowed traders to import goods from outside Libya, our turnover decreased rapidly by more than 50%, because foreign goods are cheaper and have higher quality than our products. In addition, the interest rate on my loan was 7.5%, and the repayment period was only five years. To be honest, it has become too difficult. I am working only to repay the loan. I am sorry about this phrase, but I can say my government killed us (*Alsidige, *SB, 3").*

There have been reservations expressed by some researchers (Denzin & Lincoln, 1998) regarding the effectiveness of using computer software as a technique for analysing qualitative data. They have stated the following four reasons for avoiding the use of computer software in qualitative research:

1- The links of computers with qualitative analysis. Several academics thought that computers are not good for developing ideas and thinking. They thought it only good for numbers and counting.

2- A number of academics also considered that the computer software serves as a limit for creativity in interpretation.

3- The academic researchers also believe that the computer software is superficial for analysing qualitative data. They added the use of computer software for qualitative analysis is associated with much quantitative thinking.

4- Some researchers thought that the computer software creates an unacceptable distance between the researcher and data collected (Denzin & Lincoln, 1998).

In addition, the literature illustrated that the use of computer software techniques in qualitative research has not demonstrated a high quality output compared with conventional techniques (Doern, 2008).

The researcher believes that the traditional process of analysing data in this research would draw the best conclusions. Consequently, the researcher decided to maintain the conventional approaches that applied in several previous qualitative researches, and to not use the computer software to analyse data in this research.

The next sections will complete this section by focussing on the discussion of a number of issues relating to this research which are ethical considerations, validity and reliability.

4.9 Ethical considerations

In this research, in terms of design, selection of a research sample, data collection, and analysis of data, ethical considerations are important.

This research is designed to reflect the concepts and opinions of the respondents about the financing of small businesses in the Libyan economic environment. Through critical reflection and consultation, it became apparent that there were ethical issues relating to the critical interpretive perspective employed in this study such as risk and harm, anonymity, confidentially and privacy.

During this study participants were not exposed to any risk or harm, and whilst privacy is often an important issue in research. In this study participating organizations welcomed and they were positively participated.

The researcher obtained letters from Gloucestershire University and from the Libyan Embassy (Cultural Affairs Department) as approval and support for carrying out this study in Libya. Another letter prepared by the researcher explained the research being carried out and why the interviews were needed by this study.

When the small sample was selected by telephone from two cities Tripoli and Misurata, the researcher began interviews with a brief description of the study. Respondents were asked if they had objections about using the digital recorder. Only two of the thirty-two respondents objected to the recording of the interviews. In these cases the researcher used the short-note technique to collect data. The researcher also assured participants that the interview data would be treated confidentially. The respondents were also informed that they were under no obligation to disclose any information if they felt uncomfortable and they could withdraw from the interview at any time without giving any reason.

4.10 Validity and reliability

The issue of validity and reliability of the research design has been deeply debated among researchers. Kirk and Miller (1986) noted that the reliability and validity were initially developed to be used in quantitative researches. They are important criteria in evaluating the quality of research for the quantitative researcher.

Seidman (1991, p.16) for example suggested a number of questions that related to the validity and reliability issues as follows:

> *"How do we know that what the participant is telling us is true? And if it is true for this participant, is it true for anyone else? And if another person were doing the interview, would we get a different*

meaning? Or if we were to do the interview at a different time of year, would the participant reconstruct his or her experience differently? Or if we had picked different participants to interview, would we get an entirely dissimilar and perhaps contradictory sense of the issue at hand?"

Bryman and Bell (2007) pointed out that there are some arguments among qualitative researchers regarding relevance of the reliability and validity for qualitative research. Furthermore, according to Mishler (1986, p.108) a number of qualitative researchers disagreed with the epistemological assumption underlying these notions.

However, not surprisingly those techniques are designed to assess reliability and validity in quantitative research cannot be employed directly in qualitative research. Nevertheless, the underlying issues involved are as important in qualitative research (Cassell & Symon, 1994).

"***Validity*** *in quantitative research is a valid instrument which actually measures what it claims to measure. Similarly, in qualitative research, a study is valid if it truly examines the topic which it claims to have examined.*" (Cassell & Symon, 1994, p.31).

In real meaning, in both the research traditions the concept of validity is similar. "*In the traditions considered in quantitative research, the notions of validity centre on methods. In qualitative research, the concern is for the validity of interpretations* (Cassell & Symon, 1994, p.31)". Sarantakos (1998, p.80) argued that validity in qualitative research suggested that qualitative researchers aim to achieve validity because they thought that it was strength of their research. The same author added that qualitative researchers employ a number of measures to guarantee the validity in their research. This differs from case to case, while some researchers propose one set of measures, others suggest another.

According to Sarantakos (1998, p.80) also there are some types of validation in qualitative research mentioned by a number of researchers. These are as follow:

- **Cumulative validation**: In this type of validation a study can be validated if its findings are supported by other studies. The researcher can compare the various findings and make a judgement about the validity of the studies.
- **Communicative validation**: The validity of the findings can also be ensured through additional questioning of the respondents: the researcher is then expected to re-enter the field and collect additional data.
- **Argumentative validation**: This form of validity is established through the presentation of the findings in such a way that conclusions can be followed and tested.
- **Ecological validation**: A study is thought to be valid if carried out in the natural environment of the subjects, using suitable methods and taking into consideration the life and conditions of the researched.

The above forms of validation are thought to be effective, allowing qualitative researchers to achieve a higher degree of validity than that can be achieved by the quantitative researchers (Sarantakos, 1998). This view is supported by Lamnek (1998, p.154) who suggested the following reasons for the higher validity achieved by the qualitative researches:

- In qualitative studies the information is closer to the research field than in quantitative studies.
- The collection of data is not determined by research screens and directives.
- The data is closer to reality than in quantitative research.
- In qualitative studies, the opinions and views of the researched are considered.
- The methods are more open and flexible than quantitative studies.
- In qualitative researches, there is a communicative basis that is not available in quantitative studies.
- A successive expansion of data is possible.

Therefore, the validity in qualitative researches depends to a great extent on the competence, skill and rigor of the people who is conducting the fieldwork (Patton, 1990).

Reliability is defined as "*the extent to which a test or procedure produces similar results under constant conditions on all occasions"* (Bell, 1995, p.64). This claim might be important if the findings of the research can be applied to other situations, and not to be used only in the main environment which the researcher investigated (Remenyi et al., 1998).

According to Drew, Hardman, and Hart, (1996) in order to achieve reliability in qualitative studies, the researcher should pursue the following five steps:

- They should use low inference descriptors.
- They should make a careful audit trial for the data.
- They should use multiple researchers whenever possible.

- They should use mechanical recording devices where possible (with permission).
- They should use participant researchers or informants to check the accuracy or congruence of perceptions.

In terms of this research the validity and reliability were demonstrated as follows: Descriptive validity was established through recording of interviews, and by writing them up verbatim; clarity of meaning was confirmed by confirming responses with the interviewee.

Interpretive validity was ensured through grounding participant accounts in their own words and concepts. This was important because as it is concerned with 'what objects, behaviors and events mean to the people engaged in and with them (Maxwell, 2002, p.48). The researcher's previous background and working experience in banking sector played an important role in terms of interpretive validity. It might be important also to illustrate how the interpretation was reached in this research. This was through documenting all different stages of the research operations, and also through making transparent of all different stages of the data analysis.

To make sure about respondent validation, the researcher asked participants a number of closed questions, in order to make a comparison with their open-ended answers on one hand, and to reach some simple data on the other hand. Also as mentioned earlier, the interview was conducted with two groups of participants, owner-managers of small businesses and senior lending managers in the main banks in Libya. Therefore, the researcher was testing the validity of the data gathered through comparing answers provided by both participants. For example, guarantees required, interest attitude, interest rate, documents required, accounting information availability etc... Findings presented in chapter 5 revealed that the answers confirmed the validity.

In addition, all interviews were conducted with the specific respondents. Owner-managers of small business and senior managers of lending in the main banks were interviewed, which means all data were gathered from the main sources. A digital recorder was used during the conduction of interviews, and a summary after every interview was prepared.

However, even though some features of triangulation were adopted in this study, the researcher tends to agree with Bloor (1997) and Doern (2008) that triangulation does not necessarily allow for validity tests on findings. As Bloor explained:

> *" All research findings are shaped by the circumstances of their production, so findings collected by different methods will differ in their form and specifically to a degree that will make their direct comparison problematic"(p.39).*

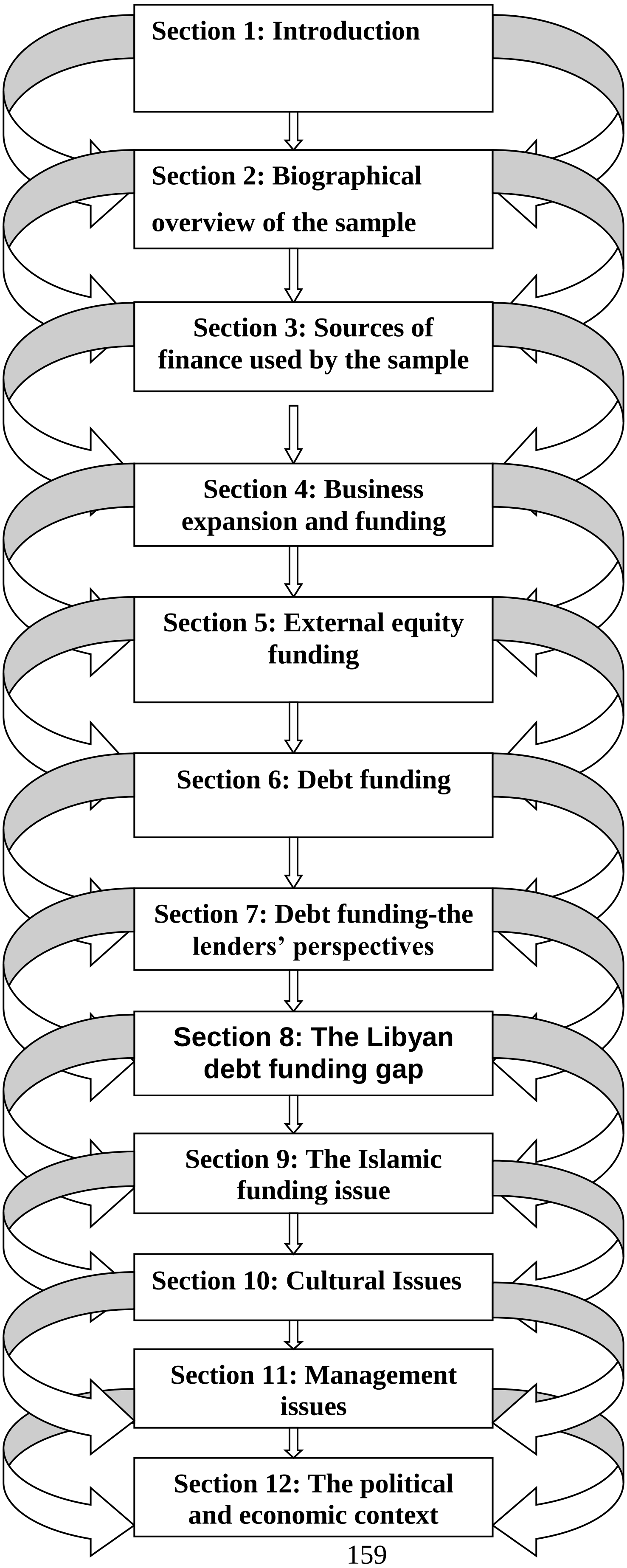
Furthermore, because this study aims to explore the perceptions of owner-managers of small businesses and senior lending managers in the main banks, in terms of their opinions and their subjective experience, triangulation, in particular relates to multiple or mixed methods. Therefore, it was not employed for this research to corroborate the validity of research findings.

4.11 Summary

This chapter has provided discussion about the philosophy of the research (research approach). Research methods used in the main empirical study, sampling strategy, research sample, data collection techniques, data analysis techniques, ethical issues and validity and reliability issues all were covered in this chapter. The main aim of this research was to explore the findings of Libyan small businesses in terms of sources, uses, attitudes and constraints. Therefore, qualitative methodology was more suitable to achieving the objectives of this exploratory study. Semi-structured interviews were conducted with twenty seven owner-managers of small business and with five senior managers of lending in the main banks in Libya. Such interviews were most appropriate to emphasize meaning, experience, and context and process the main features of the research aims. The study was subjective, and an interpretive lens was suited to address the objectives of this research. Data from the interviews was analysed according to Miller and Crabtree approach which is the template technique, and it used by Mahmoud (2000) and Doern (2008) in their studies. Towards the end of this chapter some documented steps were taken to ensure that the interpretation of the data was reliable and valid. The next chapter presents the findings of the study.

Chapter 5: Analysis and Discussion

Figure 23: Structure of the chapter 5



5-1 Introduction

This chapter is designed to discuss, analyse and interpret the research findings of the main empirical study. The aim of the research will be pursued by focusing the discussion and findings on five sub-aims, which combine to build a wide understanding of the financing of small businesses in the Libyan economic environment. The discussion of the findings of the study will draw from the literature reviewed earlier.

The demographic characteristics of the owners of small businesses in the sample will be briefly summarised in the first section of this chapter, with a description of each participant in terms of their work history, education, entry into business, goals, and core business. This description will give some personal context about these interviewees. The following sections will focus on information gathered from the owner managers introduced in section 2, and senior managers of lending in banks about the financing of small businesses in terms of sources, uses, attitudes, and constraints. To illustrate the arguments and findings, the researcher will make use of narrative quotations from the interviews.

5.2 Biographical overview of the sample

Table 16: Biographical overview of sample

Participant	Description
SB1/ Joma Gender: M Education: Secondary Sector: Trade Workers: 6	Joma is in his late 40s. He started his working life as a trader with his father during the 1970s. In the late 1970s he joined the Libyan army until the mid 1980s. In the 1980s, when the Libyan government prevented trading, he established a bag factory with his uncle. He worked with his uncle until 2000, when they decided to separate their

Firm age: 8 years	business. He decided to move to another business, and returned to trading when the Libyan government allowed people to once again work in trade. He then decided to work as a trader in the field of light construction materials.
SB2/Yusef Gender: M Education: Degree Sector: Trade Workers:15 Firm age:15 years	Yusef is in his early 40s. He started his working life in the early 1990s when he took a BSc qualification. He started his business as a small trader with his brother in the 1990s. He decided to become a trader because the background of his family was in trade and his brother was working in this field as will. He has taken support and advice from his family and his brother particularly. He decided to form a trading partnership with his brother in the late 1990s and has worked in this partnership since the early 2000s. They established a company to distribute stationery.
SB3/Alsidige Gender: M Education: Secondary Sector: Manufacturing Workers:5 Firm age:5 years	Alsidige is in his 40s. He was working in the public sector, but he decided to move to the private sector because he thought it would provide a better living. His also wished to be independent. His target was to establish a large factory. He established a small factory for fruit juice production in partnership with two friends. They were aware of bank loans, and they established their business with a loan from a development bank. The bank loan was only enough for machines and the amount of the loan was not sufficient to establish a large factory, consisting of only LYD 40,000 per person. They separated their partnership during the 2000s, and he became the owner of the factory in the middle of the 2000s.
SB4/Jamal Gender: M	Jamal is in his 40s. He started his working life early after secondary school as an assistant truck driver, and then as a street trader during the

Education: Secondary Sector: Trade Workers:10 Firm age: 12 years	1980s. When trading became allowed in the 1990s, he established an outlet for construction materials. He worked in this sector until the late 1990s, when he decided to join the manufacturing sector. He established a factory for iron production, and said that in that period the manufacturing sector was the best source for success and profit until the middle of the 2000s, when the Libyan government decided to open the Libyan market to all foreign goods. In 2005 he decided to close his factory and return to the trade sector. He established an outlet for trade in construction materials.
SB5/Mansour Gender: M Education: Degree Sector: Manufacturing Workers:13 Firm age:17 years	Mansur is in his late 30s. He finished a BSc in Economics during 1990s. He was the oldest son in his family. When he finished his study his father owned an iron factory in partnership with another person. In the late 1990s, he started work with his father as an accountant. His father advised him, and supported him to manage all their business. In the early 2000s, he and his father left the partnership, and he became manager of their family business.
SB6/Abushiba Gender: M Education: Degree Sector: Manufacturing Workers:7 Firm age:2 years	Abushiba is in his early 50s. He started his life as a secondary school teacher. He decided to establish a small printing agency in the early 1980s with his brother. He continued to work in the field of education together with journalism until the 1990s, when he decided to leave the education sector and focus on journalism. He expanded his business and became popular in this field. In 2006 he and his brother decided to separate their business; his brother stayed in the original printing business, and Abushiba established a new printing business.
SB7/Marie Gender: M	Marie is in his late 30s. He finished his BSc in the middle of the 1990s, and started his first job in the public sector. He stayed in the public

Education: Degree Sector: Manufacturing Workers:10 Firm age: 6 years	sector for about 10 years. In the late 1990s, he decided with his brother to establish an aluminum factory in partnership with another person from the same family in Benghazi city. His brother managed their business in Benghazi. In the early 2000s, he and his brother decided to separate their business and return to their home city, Misurata. He decided to establish the same kind of factory in Misurata with his brothers. He manufactures aluminium with his brothers, and he was very happy because as he said, “I have found a good source of income for my family”.
SB8/Mahmud Gender: M Education: Degree Sector: Manufacturing Workers:25 Firm age:14 years	Mahmud is in his early 50s. He has a BSc qualification, and he worked in the public sector until the late 1980s, when he established a business with his family. He started this business in two sectors, manufacturing and trading. Regarding the trade business, he started in partnership with other people. His manufacturing business grew and succeeded, but his trading business did not. He was the supervisor for his manufacturing business, but in the trading business his partner was supervisor. In the early 2000s, he decided to end his trading business and focus on the manufacturing of milk and cheese.
SB9/Omar Gender: M Education: Secondary Sector: Manufacturing Workers:10 Firm age: 9 years	Omar is in his early 40s. He had a secondary qualification, and before becoming an owner-manager he worked in the public sector. His salary from the public sector was low and was not enough for the requirements of life. In the early 2000s, he decided to establish a business repairing equipment with his brothers. His uncle was able to advise and support him because he is working in the same sector. He founded his business with a loan from a development bank. In the mid 2000s, he expanded his business with another loan from the same bank.
SB10/Ahmed	Ahmed is in his early 40s. His previous job was as a teacher in a

Gender: M Education:Degree Sector: Manufacturing Workers: 20 Firm age: 1 year	secondary school. In Ahmed's opinion, his salary in the education sector was not enough for a good life, being about LYD 150 (about $130) monthly. During the 1990s, he decided with three other friends to establish a factory for iron production, and in the late 1990s, he left his job in the public sector, and he became the full-time manager of his private iron business. He worked with his friends in this factory until the early 2000s, when they decided to end their partnership. He entered into another partnership in the same field with other friends. This partnership continued until the end of 2007, when they also decided to separate their business. In early 2008 he established another modern factory for iron production with other two partners.
SB11/Nasser Gender: M Education: Diploma Sector: Manufacturing Workers: 8 Firm age: 2 years	Nasser is in his late 30s. He left school early. His family owned factories in the cement industry. He started work early with his family as a supervisor inside a factory. During that period, he learned many skills from his family. He worked in this job until the late 1990s, when he became manager of a factory in the cement industry. When his father decided to distribute his property to his sons and daughters in the mid 2000s, he became owner-manager of his own cement factory. In 2007 he sold this business and established a new factory for grinding limestone. He was happy with this factory, and he thought it would be a good source of income.
SB12/Ali Gender: M Education: Diploma Sector: Manufacturing Workers:18 Firm age:16 years	Ali is in his late 50s. He started work in journalism after his diploma qualification. He worked in this job until the late 1980s, when he established a small printing and journalism shop. In the early 2000s, he expanded his business, drawing on his experience of working with friends and his job in the field of journalism. He works in this business with his sons, and he was looking forward to expanding his business in

	future years.
SB13/Ibrahim Gender: M Education: Degree Sector: Services Workers:10 Firm age:14 years	Ibrahim is in his late 30s. He studied computing at the University of Garyuinse in Benghazi, Libya. He found a job in the public sector after he finished his BSc study, and in the late 1990s, he established a computer service centre with two friends. They managed their business together until the early 2000s, when they decided to expand their business as a centre for computer service and trading, and he became manager of this business. Latterly, they separated their business into two centers, a centre for computer services and an outlet for computer sales.
SB14/Ismaiel Gender: M Education: Secondary Sector: trade Workers: 16 Firm age: 1 year	Ismaiel is in his early 30s. He left school early, and he started his career as an assistant salesman in a jewelry shop. In the late 1990s he became a salesman in the same shop. In the mid 2000s, he established his own jewelry shop with support from his family. He was still working in the same field, and he was happy with this job. In late 2007 he established a construction company; however he has faced more difficulties in the field of construction. He thought his business in trade would succeed, but in construction it would not.
SB15/Najat Gender: F Education: Degree Sector: service Workers: 25 Firm age:9 years	Najat is in her early 50s. She finished her BSc in sociology during the 1980s, and after that she worked as a teacher in a secondary school. In the mid 1990s, she became head teacher in a Misurata secondary school. She worked in this school until the mid 2000s, when she decided to retire. In 2006 she established a private secondary school, with family support.
SB16/Khaled Gender: M Education: Degree	Khaled was in his early 40s. He studied for a BSc in management at the University of Garyonis in Libya. When he finished his BSc in the mid 1990s he returned to his city of Misurata, and he worked with his

Sector: service Workers: 17 Firm age: 4 years	father as a truck driver and supervisor. His father owned trucks and needed some help to manage his business. Khaled continued to help his father until the early 2000s, when his father died. His family divided their father's wealth between them, and in the middle 2000s Khaled established a transportation company in partnership with his friends.
SB17/Alnaas Gender: M Education: Diploma Sector: service Workers: 22 Firm age:10 years	Alnaas is in his late 50s. He had a diploma qualification in teaching. He started his life as a teacher in a primary school in the education sector, and he became head of a primary school until he retired (in Libyan law, people in the public sector can retire when they have spent more than 20 years in their job). Alnaas established his first business in the trading sector with his friend during the mid 1990s. This business continued until the early 2000s when he decided to end this partnership. In the same year, he decided to establish a private school for primary and secondary levels with his wife, who had a teaching qualification.
SB18/Mostafa Gender: M Education: Diploma Sector: service Workers: 3 Firm age: 4 years	Mostafa is in his mid 20s. He finished his diploma in accounting in the early 2000s, and began work in a public service agency. In the mid 2000s, he decided to establish a private agency for public service. In 2006, he became owner-manager of Meraat Alalm for public service; when a development bank lent him money to establish his business.
SB19/ Asalhi Gender: M Education: Diploma Sector: service	Asalhi is in his mid 30s. He started his working life after obtaining a diploma qualification from the Institute of Management. He then worked in the public sector in a travel company. In the early 2000s, he decided to leave this company, and establish a private tourism agency.

Workers:20 Firm age:6 years	In 2002, he became owner-manager of Asfar Janat for travel and tourism.
SB20/Hameed Gender: M Education: Degree Sector: service Workers: 19 Firm age:18 years	Hameed is in his late 30s. He received a BSc degree in Accounting from the University of Garynise during the 1990s. In the same period, his father established a construction company. Hameed became an accountant in this company and supervisor of most of the financial operations in this company. In the mid 2000s, he became manager of this company when his father established another business. Hammed worked with his family and he thought that all his family supported him in being a manager of this construction company.
SB21/Kareem Gender: M Education: Degree Sector: service Workers: 20 Firm age: 6 years	Kareem was in his mid 30s. He received his BSc in Engineering from the University of Alfath in the late 1990s. In the early 2000s, he established a centre for teaching different languages and computer skills. Kareem was heavily dependent on his family in the first period, but subsequently his business had expanded by more than 75%.
SB22/Ataher Gender: M Education: Diploma Sector: Trade Workers: 10 Firm age: 4 years	Ataher is in his mid 30s. He started his working life as a worker in the public sector, after finishing a diploma degree from Misurata Commercial Institute during the 1980s. In the 1990s when trading became allowed by the government, he established a small food retail business with his brothers. His business grew and his life changed. In the 2000s, he became owner-manager of a food retail supermarket.
SB23/Mukhtar Gender: M Education: Degree	Mukhtar is in his late 30s. He obtained his BSc in Management during the 1990s. His family had a good background in trade. He decided to work in trading and services. He established his first shop in the late

Sector: Trade Workers: 20 Firm age: 3 years	1990s. In the early 2000s, he moved from trade to the service sector. In the mid 2000s, his family offered to establish a large furniture outlet; he decided to join his family, and he became the manager of the furniture outlet in 2007. He thought this was the best decision of his life.
SB24/Amer Gender: M Education: Diploma Sector: Trade Workers: 10 Firm age: 9 years	Amer is in his early 40s. He left secondary school during the 1980s, and found a job in the public sector, while also working with his father as a truck driver. In the early 2000s, he decided to leave the public sector, and work in trade with his family. In the same year, they established a shop for construction materials. He was working as manager for this business, and he was happy with his business.
SB25/Salem Gender: M Education: Degree Sector: Trade Workers: 5 Firm age: 8 years	Salem is in his mid 30s. Before becoming an owner-manager, he was a student at the University of Almrgep in the Economics Department in the late 1990s. His father specialised in the perfumery trade and this business was very successful, particularly in Libya. When he received his BSc, Salem knew that public sector salaries in Libya were very low. He decided to join his family in the perfumery trade. In the mid 2000s, he became manager of this business, and he thought that his business had expanded a lot, and had become popular in many cities of Libya.
SB26/ Sanaa Education: Degree Gender: F Sector: Trade Workers: 5 Firm age: 4 years	Sanaa is in her mid 40s. She has a BSc qualification from Alfath University. She worked in the public sector until the late 1990s, and then she established a sculpture shop in partnership with a friend in Tripoli. Their business grew and expanded, but in the early 2000s she received an offer from a foreign company which specialised in the chocolate industry, to be its distributor in the Libyan market. She

	accepted that offer, ended her partnership with her friend and became owner-manager of the new chocolate distribution business.
SB27/Mohamed Gender: M Education: Degree Sector: Trade Workers: 16 Firm age: 17 years	Mohamed is in his late 30s. Before becoming an owner-manager, he took a BSc in Economics at the University of Garyounis. When he finished his study in the mid 1990s, he decided to work with his family in the field of trade. They established a perfumery shop. It was small and it grew slowly until the 2000s, when he had offers from foreign companies to work as their Libyan distributor. After this, his business expanded and grew, and he became the owner of three outlets in the field of perfumery. He was happy with his business, and he wanted to be the manager of a large company in the perfumery trade.

Some points stand out from the biographical overview of the sample in table 16. First, in terms of age of the respondents, the majority were in their 30s and 40s. Only one respondent was in his 20s, three respondents were in their early 50s, and two respondents were in their late 50s. Second, the table shows that half the respondents had a degree or diploma qualification, while the other half was non-graduates. The biographical overview also shows that family plays a vital role in terms of providing experience and training for participants, and in terms of small business funding.

5.3 Sources of finance used by the sample at start-up

5.3.1 Sources of start-up finance – sample overview

Table 17 illustrates the sources of finance which were used by the sample in the start-up stage.

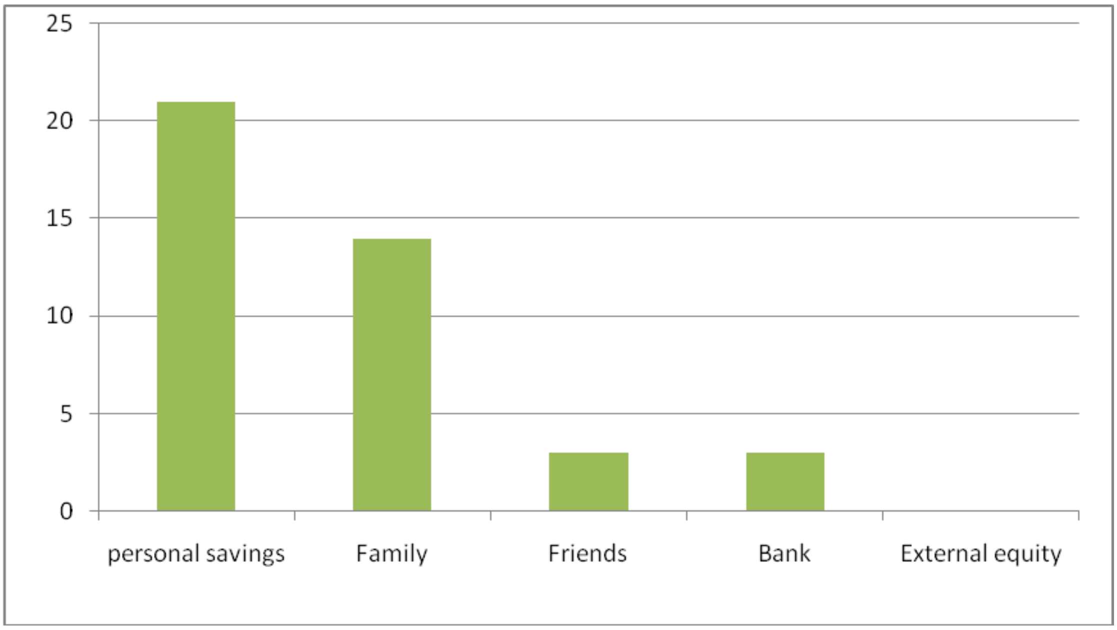
Table 17: Sources of finance used by the sample at start up

Small businesses	Personal savings	Family	Friends	Bank	External Equity
SB1/Joma	✓				
SB2/Yusef	✓	✓			
SB3/Alsidige	✓			✓	
SB4/Jamal	✓				
SB5/Mansour	✓	✓			
SB6/Abushiba	✓				
SB7/ Marie	✓	✓			
SB8/Mahmud		✓			
SB9/Omar		✓		✓	
SB10/Ahmed	✓		✓		
SB11/ Nasser		✓			
SB12/Ali	✓				
SB13/Abrahim	✓		✓		
SB14/Ismaiel	✓				
SB15/Najat		✓			
SB16/Khaled	✓		✓		
SB17/Alnaas	✓				
SB18/Mostafa	✓			✓	
SB19/Asalhi	✓				
SB20/Hameed		✓			
SB21/Kareem		✓			
SB22/Ataher	✓	✓			
SB23/Mukhtar		✓			

SB24/Amer		✓			
SB25/Salem	✓				
SB26/Sanaa	✓	✓			
SB27/Mohamed		✓			

As is evident from the table, personal savings and family finance were widely used in the start-up of the sample businesses. The above table shows that eighteen out of twenty-seven respondents used personal savings; fourteen out of twenty-seven respondents used family finance. Three of the sample had obtained funds from their friends and only three participants had a loan from a bank, and no respondents had used external equity in the start-up stage (for more information on this, see figure 24) (see Bhaird and Lucey, 2009; Kotey, 2006). Baracat (1993) found that Arab culture considers the family to be the central socio-economic unit. The same author added that family is the basic unit of production and the centre of Arab social organisation and socio-economic activities. The sample very clears bears this out.

Figure 24: Sources of finance used by the sample in the start-up stage



Mixed sources were also used to fund businesses in the start-up stage; five out of eighteen respondents had used both their savings and family finance in the early stage of their business. Only three respondents had borrowed money from the bank, and they also used their savings or family finance together with a bank loan to start their businesses (see figure 25).

Figure 25: Sources of funding used in the start-up of the sample businesses

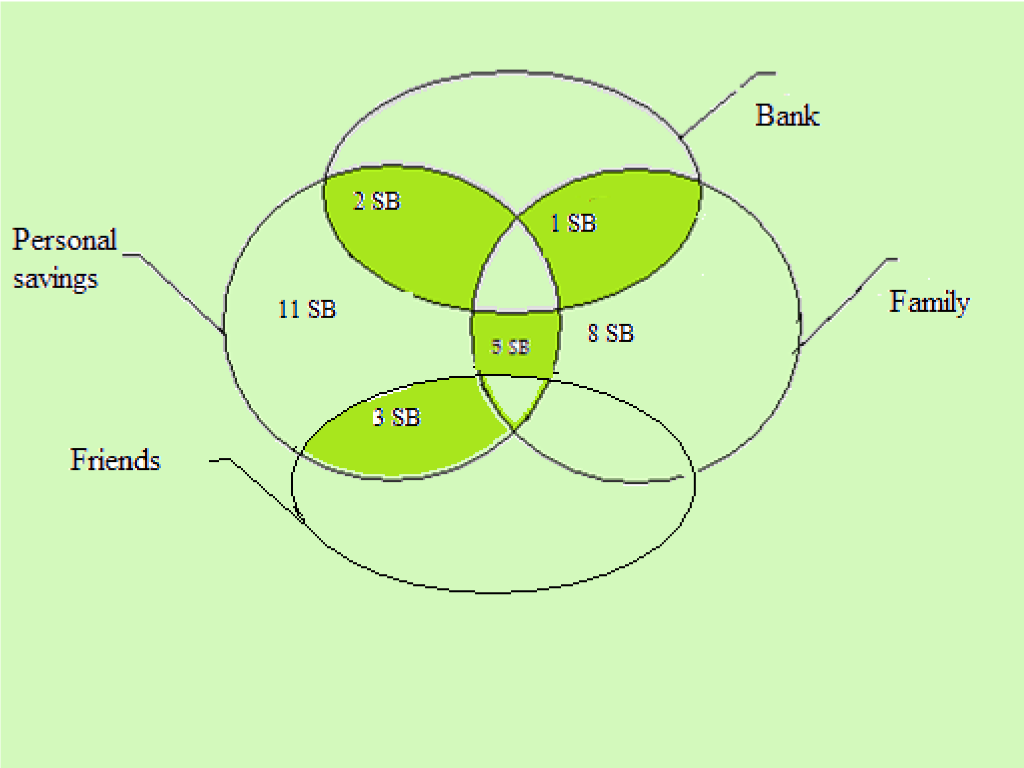


Figure 25 shows that personal savings and family were the main sources of funding in the early stage; the majority of owner-managers of the small businesses were heavily dependent on their savings and family for the establishment of their businesses.

This result supports that the claim that small businesses in the early stage are dependent on internal sources more than external sources, as found, for example, by Kotey (1999) and Roper (1999). This finding also supported the result of Bilsen and

Mitina (1999), when they found almost 90% of small businesses in Ukraine, Belarus and Russia funded start-up by the savings of their owners, and that only 25% of small businesses sought additional funds from family and friends.

5.3.2 Attitudes to sources of start-up finance

Different opinions were given by respondents concerning the financing of their businesses in the start-up stage. For example, Kareem, Asalhi, Ismaiel, Ahmed, and Sanaa used their savings to start their business. More funding was required to establish a larger business at start-up, but most of the owner-managers wanted to be independent. For example, Kareem started his business with his savings. His goal was to establish a large learning centre, but because he wanted to be independent, he preferred to start his business on a small scale. As he commented:

> "*I started my business with my savings. Actually, I started my business in a small way. The capital in the start-up stage was about LYD 5,000. My business was heavily dependent on effort and reputation …. I received some offers from friends and family to make a partnership, but, as I said, I wanted to be alone in my business. (*Were you aware of other sources of capital?) "*Yes, there were loans from banks*. (Did you try to borrow from banks?) *Actually, no, but I think there were difficulties in borrowing from banks".* (Could you please tell me about these difficulties?) "*Yes, first of all, there were difficulties in terms of procedures, documents and guarantees. Second, there was another obstacle, which I think was the main obstacle and that is the interest. The interest rate was high, and it is forbidden in Islam, I know some investors who borrowed money*

from the bank at the first stage, but they did not succeed, because they could not repay their loan on time" (SB21).

Some other respondents used family finance in the start-up period, because their families had a good history in business, or were rich. For instance, Nasser has a rich family; he worked with them in the manufacturing sector. He established his business using his share of the wealth of his family. However, other respondents had mixed feelings about family funding. Joma, Kareem and Asalhi thought that it would be better if they stayed away from a family partnership. As Joma commented:

"*Most of my family are rich; I can get capital from them at any time, with regard to the family. It will be better to stay away from family partnership because it may cause some discord in connection with work, which could result in losing my family" (SB1).*

5.3.3 Low initial financial investment

Other findings show that the owners of small businesses, particularly those who had recently established their business, had different reasons for starting their business with a small amount of money. Lack of access to capital, Islamic attitudes to interest, and limited resources of capital were among the reasons for starting their businesses with a small amount of capital, *as one stated:*

"I separated my business from a partnership because I wanted to be independent. However, the problem was I did not have enough money to do it (SB10)".

Eight respondents reported that their small businesses started with a very small initial investment. This, particularly at the beginning, prevented their businesses from growing; respondents were asked what the source of capital was at the commencement of their business. Asalhi answered:

"*Our business started with a very small amount*" (SB19). (The researcher asked him why this was, he added), "*because the Libyan market was very small…in that period you could establish a business with only LYD5, 000"*. (At the end of the 80s and early 90s, this was equal to about $11,000)

Another respondent, who also used a limited amount of money in the start-up of his business, thought that his business did not grow enough in the early stage because the government controlled all sources and suppliers of goods. As he commented:

> "*I used a small amount at the beginning. I think not more than LYD 5,000 or 6,000… because when the government allowed us to trade, it imposed some rules on traders, for instance, traders could not import goods from foreign companies. Only public companies could do that, and then we bought our requirements from these public companies. In each sector, there was only one public company specialising in importing goods from outside Libya. However, this company imported goods and then divided them between traders who had a licence, the quantity was distributed every month, but it was not enough to grow and expand the business. This situation continued until the mid 1990s, when the government allowed traders to import from outside" (*Yusef, *SB 2).*

Other respondents, particularly those who had started his/her business recently, stated that there were several reasons for starting their businesses with a small amount of money, such as lack of access to capital, Islamic attitudes to interest, limited resources of capital, credit history and collateral requirements. For example, Ahmed separated his business from a partnership and established a new business in early 2008. He wanted to establish an independent modern factory, but he did not have sufficient funding. He was aware of sources of external capital, but he refused to borrow money from banks.

> "*I know some banks, which give loans for investors, but I could not borrow from them, because there were many obstacles. For instance, collateral requirements, credit history, and the interest rates were too high. I think they were about 7% or more, and as you know, interest is forbidden by Islamic law*. (Are there any other sources except banks?) *In my opinion, no, only loans from banks (SB10)".*

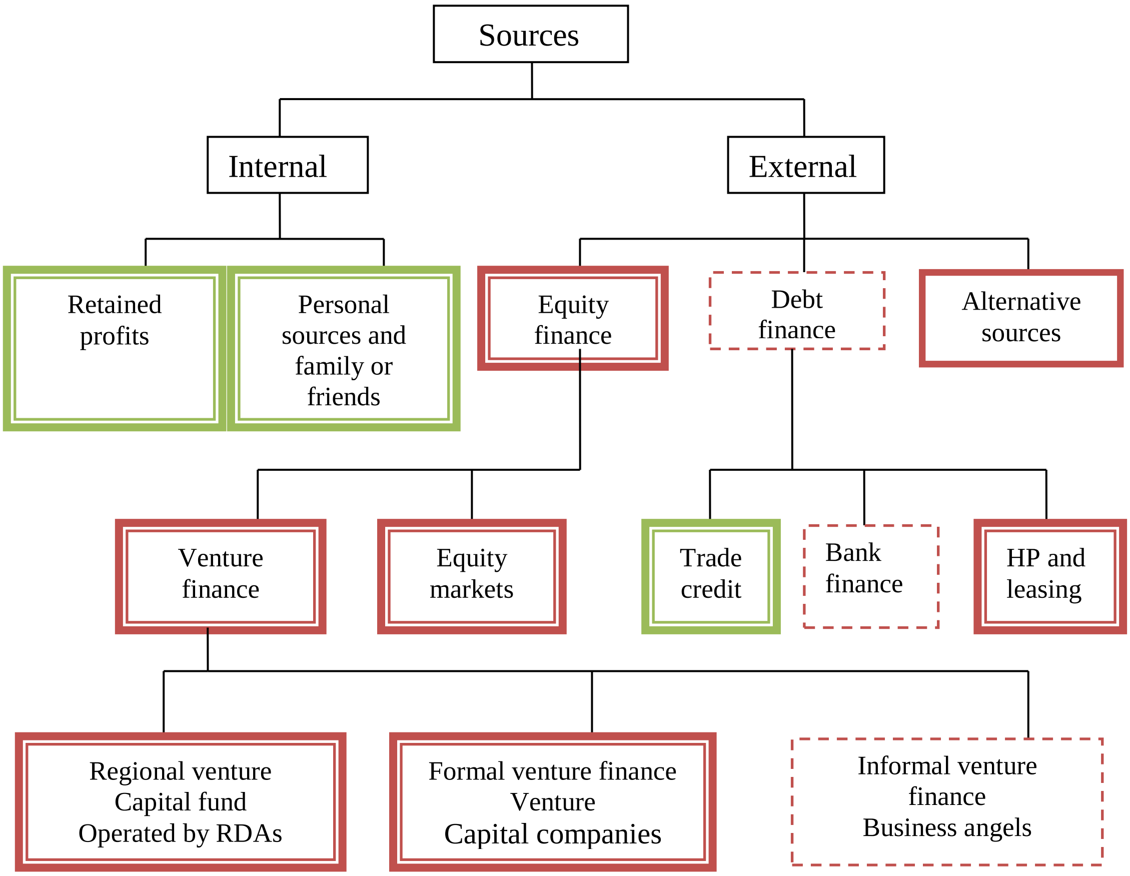
A different answer was given by the respondent Ibrahim who started his business with his partners with a small amount of capital. However, they were heavily dependent on their experience rather than money, and he said:

> "*Actually, we started our business with a small amount of money. Our business did not require a large amount of capital in the beginning. It only needed LYD 3,000, and experience. Our experience was the capital of our business in the start-up period. However, when we decided to work in trading, capital was also required" (SB13).*

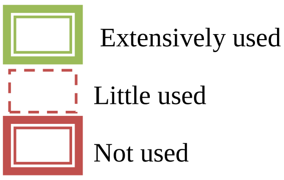
5.4 Business expansion and funding

This section will focus on how the sample businesses expanded and grew. The interviews show that there were a number of internal and external sources of finance used to expand the businesses. Although a number of these sources, such as bank loans and informal venture capital, were available in the Libyan market, the findings show that there was a gap between lenders and borrowers. Figure 26 illustrates the limitation of external sources of funding to small businesses in the Libyan financial market compared with the common sources suggested by Deakins and Freel (2003) (see 3.4).

Figure 26: the sources commonly used in the Libyan financial market



Based on: Deakins and Freel (2003) (see 3.4.1)



5.4.1 Financing by retained earnings

Figure 26 suggests that retained earnings have widely contributed to the growth of small business in Libya. As shown above, most of the sample businesses were fairly recently established. The interviews revealed that most of the owner-managers (23 participants) had used retained earnings to expand their businesses. Some interviewees started their business with a small sum of money (not exceeding LYD 5,000). However, in some cases the capital of their business at the time of the interview being conducted was more than LYD 500, 000. The study also shows that the businesses which were established earlier (including those of Joma, Yusef, Jamal, Salem and Mahmud), particularly when the Libyan government first allowed work in the private sector, had grown more than that those started-up more recently. Ali, Hameed and Amer. Yusef established his business in the early 1990s. He started his business on a small scale. During the 2000s, his business grew enormously; but he was dependent on retained earnings and trade credit to expand his business. As he stated:

> "*As I mentioned early, during the earlier and mid 1990s, the Libyan government controlled the private sector until the late 1990s when the government allowed private businesses to import from outside Libya. Our business did not grow as quickly as we would have liked. However, in the late 1990s and the early 2000s the situation of the business market in Libya started to improve and the business now intends to expand" (SB2).*

In addition, when he was asked what source or sources of money he used when expanded his business, he answered:

> "*To be honest; I worked hard in the early 2000s. The average profit was high compared with the 1990s period. During the late 1990s and the early 2000s, I retained a lot of capital. I used all of it to expand my business" (SB2).*

It is possible that the perceived lack of external sources of funding made the owners of small businesses more likely to use their retained earnings to expand their businesses. The findings show that retained earnings have contributed significantly to the growth of Libyan small businesses in this sample. These findings support claims by Bhaird and Lucey (2009) that profit is considered one of the main sources of funding for small business growth; however, they might also reflect the fact that Libyan small businesses face more obstacles accessing external sources of funding than other developing countries. Several owner-managers complained about the weak growth of their businesses, for example, respondents such as Alsidige, Ismaiel and Ataher, who despite starting their business in the early 1990s, and working during the growth period in Libya (in the late of 1990s and the early 2000s), found that their business still needed more support in terms of investment and training. For instance, Alsidige started his business with a loan from the development bank with his two friends. In the mid 2000s, they separated their partnership and Alsidige became the owner-manager of this business. This business is a factory for fruit juice production; he imports all the raw materials from outside Libya. However, during the last two years the demand for his production has considerably decreased, and the average profit has decreased as well, because the Libyan government has allowed traders to import any goods from outside Libya (including fruit juice). All of his revenue goes to repay his loan to the bank. He expected his business would be closed during the following few years. As he commented:

> *"The government should support the national production… I cannot believe that... I cannot continue… I am only working to repay the loan for the bank. As you see today all foreign goods are available in the Libyan market. Our production cannot compete with foreign goods whether in terms of price or quality. If this situation continues, I will close my business during the next few years". (SB3).*

Respondent Ataher also started his business in the early 1990s with his brothers, with a small amount of capital. At the time of this study his business was a supermarket for food retail. He had used retained earnings to expand his business, as well as using a part of the profits to help his family. He was looking forward to expanding his business, and wished to establish another supermarket, but recognized that retained earnings would not be sufficient to establish another supermarket. As he claimed:

> "*I can say it was a small food shop. It grew faster than before, but it did not expand rapidly. We are now three brothers working in this supermarket, and we use a part of the profit for our daily life – we cannot expand our business by profit. I think we need to find another source of finance to expand our business" (SB22).*

Owners of small businesses in Libya predominantly lean towards using trade credit to cover liquidity problems. The majority of traders in the Libyan market, particularly when dealing with foreign companies use trade credit as a source of liquidity and growth funding (see Rodriguez, 2006).

5.4.2 Trade credit funding

Trade credit is also widely used as an informal source of finance in the Libyan market, particularly in the trade sector. The interviews showed that eight out of the nine trade participants used trade credit in this way. The manufacturing sector also uses trade credit as a source of finance to fund their business, and two out of nine participants in the manufacturing sector had used trade credit to fund their business. However, foreign companies extend credit to Libyan small businesses depending on their credibility, reliability and personal relationships. The period of credit also depends on the repayment method, the price, the quantity and quality of goods bought. For example, Mohamed had a good relationship with certain foreign companies in the field of perfumery. He was working with these companies as a distributor in the Libyan market and he had six months as a repayment period of credit. Every month he received at least two containers of perfumery. As he stated: "*I deal with four foreign companies as a distributor in the Libyan market… and I have a good relationship with these companies" (SB, 27)*.

In addition, when was asked if he had paid to become a distributor in the Libyan market. He answered: "*No, our relationship established credibility between us"*. And when he was asked how long the repayment period of credit was, he claimed: "*I can say, from three to six months"*. When asked if he imported the goods at the standard trade price, or the price was higher because of his credit period, he stated:

> "*The price depends on the quantity and the quality of goods. If I request a small quantity or high quality, certainly the price will be higher… but if the goods are from stock, the price will be the standard trade price" (SB, 27)*.

This result supports the argument that small business owners generally tend to use a trade credit method to reduce their liquidity problems when they face financing problems (see Rodriguez, 2006). Small businesses, when dealing with this aspect, can take a grace period to repay debt of between two to twelve months.

Another participant who also dealt with foreign companies as a distributor in the Libyan market, paid to obtain distribution rights from the foreign company, before she started to use trade credit. However, she had only two months as a repayment period for her trade credit. As she explained:

> "*Yes, I deal with trade credit in my business. I bought an agency from a foreign company, as a distributor in the Libyan market. Actually, I would like to thank my family for their help. Without my family, I could not have bought this agency" (Sanaa, SB, 26).*

In addition, when this respondent was asked if she received any particular advantages from this agency, she added:

> "I *can say the first advantage of the agency is that I am the sole trader for these products on the Libyan market. The second advantage is that I have a repayment period of two months." (Sanaa, SB, 26).*

A participant Joma deals with ten foreign companies using a trade credit repayment period. He deals with them through his personal relationship as a distributor in the Libyan market. Joma has a different opinion about the advantages of these credit facilities for small business. As he stated:

> "*Yes, I have dealt with foreign companies, and there are many traders who deal with them, especially with Italian companies.*

However, regarding my business, I deal with them carefully, because the Libyan market is an irregular market...The Libyan market is irregular in terms of both demand and the legal system, and for this reason I cannot buy a large quantity from foreign companies on credit, because if I could not repay the credit on time that would affect my reputation in the market. However, recently the ministry of trade and industry has introduced a decision regarding agencies, which allows for traders to hold not more than three agencies" (SB, 1).

This result is in line with the findings of Yang and Blenman (2008), who found that owners of small firms, when constrained financially, usually seek to use trade credit to finance growth, or ease cash flow difficulties. The findings of this study show that most traders in the Libyan market were able to obtain a repayment period from foreign companies of between two to six months. Rajan and Zingales (1995) found that small firms when finding difficulties to obtain bank loans or when faced with liquidity obstacles tend to use trade credit to resolve these problems.

This propensity to use trade credit funding methods in the Libyan market might reflect the fact that Libyan small businesses preferred informal sources of funding rather than formal sources. Foreign companies can offer small businesses short-term loans without charging interest, which overcomes Islamic objections to usury, and this method can solve cash flow problems without the need to add partners or borrow money from banks (see Yang and Blenman, 2008).

However, small businesses also faced difficulties in raising trade credit from foreign companies due to government decisions which prevented small businesses in Libya from dealing with more than three foreign companies in the Libyan market. The interview findings suggest that further reasons for owners-managers of small businesses to avoid large dealings with foreign companies committing large amounts of capital was that the owners of small businesses complained about the instability of demand in the market and also about the instability of government legislation, which made sales and financial planning very difficult.

It has been noted that the majority of small businesses in Libya are still in the introductory period of growth, and depend on retained earnings, personal savings, family members and trade credit for funding new business or to expand their existing business. Nevertheless such sources are often insufficient to develop and grow a business, particularly in a highly competitive market. Therefore, the development of Libyan small businesses required access to alternative formal sources of funding such as equity and debt funding. This finding supports the results found by Al-kharausi who explored Omani small businesses in 2003, and found that they needed further external sources of finance to develop and grow, because they were heavily dependent on personal savings and retained earnings, particularly in the establishment stage.

This focus on sources of finance such as retained earnings or trade credit seems to indicate that the availability of other external sources was weak or there were huge obstacles to accessing it. Respondents were asked what kinds of external finance they were aware of: the majority of them answered that they were only aware of bank loans.

5.4.3 Family funding

In the context of this study, the family was considered a common source of finance, and was widely used to fund small businesses in the Libyan market. The majority of respondents grew up working for the family business, and most of them had good family business backgrounds, which often helped them to be more creative and aspirational. For example, Joma said:

"…. *From the beginning of my working life, I worked with my father in the field of trade in Fzan city (SB1)".*

Sanaa, Marie, Mahmud, Nasser, Khaled, Mukhtar, Amer, Salem and Mohamed started their lives as workers with their families, and then when they became ready to lead a business, some of them became managers of their family businesses, and others separated from their family business and established new businesses.

5.4.4 Family partnership funding

Owners of small businesses can fund their business in the early stage or in the expansion period with capital from their family or relatives. Interviews show that fourteen out of twenty-seven participants used family capital to fund their business. Five out of these fourteen used family funding together with their personal savings, and one participant used family funding in combination with a bank loan. The majority of these businesses were established through family funding. For example, Ataher gathered the necessary capital from his family when he started his business. Mahmoud also started his business with capital from his family. Capital was shared between them, and the profit was divided according to shares.

Generally, there were mixed feelings among owners of small businesses in terms of using family capital as a source of funding. Six respondents thought that a family partnership was the best way to build a business: Yusef, Mansure, Najat, Mahmoud, Hameed and Ataher. As Hameed explained:

> "*I think the best way to build a successful business in Libya is with your family. Because, as you know, the Libyan market has limited sources of capital, and most businesses were established by families*

or partnerships. This business was established by my family years ago. We are five brothers and my father working together in this business, so I can say again family is the best way to establish or expand businesses" (SB, 20).

Some other respondents thought that a business partnership might cause a fracture in the family relationship. They also thought that a business partnership should be with another person outside the family. For example, when Jamal was asked if he had tried to borrow money from his family, or create a business with them, he stated:

"*I tried to borrow money from my family, but I failed.* And when he was asked again why, he added *"because the family partners need to only share the capital rather than the labour. In addition, in my opinion, family partnership funding is too sensitive, and it might be the reason for losing my family (SB, 4)".*

The findings also show that the Libyan market was heavily dependent on the family for establishing businesses to a greater extent than other sources. However, this dependency on family funding also reflects the lack of access to other external sources (see Romano et al, 2000) and cultural issues (Barakat, 1993 and Twati, 2006).

5.4.5 Attitudes to partnerships

The majority of the sample worked in a business partnership, or had a background in one. Eleven participants were in a business partnership with their friends. Another eleven participants had previous experience with business partnership funding. Only five participants did not belong to a business partnership, or did not have experience of one. However, every group had a different belief and opinion about business partnership funding. For example, participants who were already working in business partnership funding, thought that partnership was a good way to expand a business, as one claimed:

> *"We are three friends in a partnership in this business. We started our business when we finished our BSc in computing during the 1990s. We established this business together in the late 1990s, so our business grew rapidly, and we have never had a problem between us, everybody is a supervisor of a part of our business. I am a manager of this business, and I think when everything is clear and the work is divided between partners. I think a business partnership is a good way to succeed (Ibrahim, SB, 13)".*

The respondents in group two, who had previous experience with partnership funding, shared a different opinion about it. Some of them thought that a business partnership had a negative effect on their business, because the partner sometimes disrupted the work or management, an example of this is Alnaas, who had about a five-year background with a business partnership. He thought that it was not a good experience, as he commented:

> *"I started my first business as a partnership with my friend. The capital in the start-up was divided between us 50%, and I was the manager of this business. The business was in the trade sector. We started our business as a partnership in capital and in the work ... unfortunately I spent all my time and my effort on our business… my partner did not help me. I decided to work with financial help from my family. I think it is better for me to be independent, because all my effort and time will be for my work alone (SB, 17)".*

A number of respondents also pointed out that the partnership should be equal in everything. It should be equal in the capital of the business and also in the work. For instance, Joma, who had a lengthy background in business partnership, thought that a partnership without agreement and equality in the division of capital and work supervision would not succeed, as he commented:

> "*I would advise anyone who wishes to get involved in the process of a partnership, that everything should be balanced… Our partnership continued about 15 years or more, we were equal in everything, for example, in the work, in the capital. One of the working conditions was that if any partner made any other business, the other partner must take a share from this business, and I think that was one of the reasons for success in our business (SB, 1)".*

However, when he was asked how they were managing their business, he stated:

> "*I can say that the administration was truly democratic. Although my partnership was with my uncle, the relationship did not affect our business. Although the size of the business was relatively small, we discussed all decisions. He respected my view, and respected his view. To be honest, I am fully convinced that the partnership should be equal in everything, in the capital and labour (SB, 1)".*

Respondents Asalhi and Kreem had a different opinion about business partnerships. They thought that the partnership had more disadvantages than advantages. As Asalhi stated:

> *"I think a business partnership has disadvantages rather than advantages. For example, if I engaged in a business partnership, I would lose my control and independence of my business. In addition,*

> *to be honest, this business is my idea; I built this business from the beginning; so* I *don't want to share my business with others (SB, 19").*

The findings also show that there was no legislation which helped to organise Libyan business partnerships. Owners of small businesses were afraid of their partner taking his or her money out of the business. They thought this would affect their business, and might make them lose their income. They preferred to deal with a partnership method in terms of both work and labour, because they thought this would reduce the risk of a partner taking money back.

Although a partnership is considered one of the most informal sources of funding used in the Libyan financial market, the findings show that some owners of small businesses preferred to avoid dealing with the partnership method. One of the participants stated:

> "*Actually, I would rather be in full control of my business than obtain external funds and lose some of my business independence, even if the funding was obtainable from Islamic banks (Yusuf, SB, 2)".*

The business website Cobweb (2003) studied how to keep business partnerships healthy. They found that there were common problems which frequently occurred between partners. Furthermore, the competition of managing the business sometimes developed into a form of rivalry. They added that eventually this leads to unwillingness to invest in the business, particularly when one partner feels they do all the work and have all the ideas. They also found the daily pressures of running a small business could lead to major arguments, which could create a highly stressful environment, leading to a loss of incentive to provide any further finance to expand the business or to some damage to their relationship.

5.5 External equity funding

As mentioned in the literature review, external sources of equity finance are considered to be extremely rare in the Libyan market. The extent to which equity funding is used, and the constraints upon it in the Libyan market, will be addressed in this section.

5.5.1 Awareness of external equity funding

When respondents were asked what kinds of external funding they were aware of, all respondents answered that they were only aware of loans from commercial and development banks. This answer might reflect the reality that the overall quality of the Libyan financial market is weak. The previous control of the government over the business sector might be the main reason for the absence of external equity funding in the Libyan financial market. However, the Libyan stock market was recently established. It was opened in 2007, but in 2009 it had only six large companies listed. In addition, the culture of equity funding was also almost absent, because when the state allowed private business to operate in the Libyan market in the late 1980s, it did not introduce fixed legislation to organise the private sector. The interviews revealed that the vast majority of the owners of businesses in the sample had low awareness of equity funding. When questioned about equity funding specifically, only six respondents was aware of it, and they would all be willing to use external equity capital. The absence of formal providers of external equity funding might have caused misunderstanding of the concept of such funding. For example, when participants were asked if they were aware of equity funding, some of them asked what it meant. In addition, other respondents thought they were being asked about loans from banks. For instance, when Joma was asked if he was aware of all sources of funding that were available for small businesses in the Libyan market, he answered:

"*yes, fully aware, and I have good relations with the banks* (SB, 1)", and when he was asked again which kinds of funding sources he was aware of, he added; *there are loans from commercial and specialised banks*."

The absence of formal venture capital providers of equity funding seems to be the reason for the emergence of informal providers of equity funding, such as family and partnerships, as alternative sources for small businesses in the Libyan market, particularly in the trade sector.

5.5.2 Venture capital

Whilst the literature establishes that venture capital plays an important role in small business funding, formal venture capital funding is not widespread in the Libyan market, with very few formal venture capital institutions present. Most owner-managers in the sample did not have sufficient experience and knowledge about formal venture capital institutions to draw on this source (see 5.5.1).

Despite the fact that the majority of owner-managers in the sample did not have a high level of awareness or knowledge about venture capital funding, the interviews showed that certain owner-managers of small businesses used informal venture capital to fund their business or to fund deals, particularly in the trade sector. The interviews revealed that several traders used informal funding to pay for one-off, short-term transactions; five out of nine traders used funding from business 'angels' to fund their transactions. For instance, Amer stated that he carried out two or three rapid transactions in a year. He imported cement materials from outside Libya, and when he did not have enough money to cover all transaction costs, he dealt with his friends and other suppliers of money to fund the transactions. As he commented:

> "*Although the Libyan market for cement is relatively small and it is usually not broad enough for economies of scale, sometimes importing cement from outside the country needs to be done in large quantities, and that requires a huge sum of money. So, to cover all transaction costs, I deal with some friends and other providers of money.* (When he was asked why he did not deal with cement suppliers by credit), he claimed: *As you know, these transactions are usually conducted quickly and at times when there is a big demand for these goods. In addition, suppliers require huge sums of money, so I cannot deal with foreign companies all year round, particularly for cement material, because it has a huge world demand (SB, 24)".*

Mixed feelings about informal equity sources were also mentioned by other participants. Several owner-managers in the sample, especially those who used informal sources of capital, faced difficulties when they dealt with this aspect. For example, Jamal faced problems with his partners in terms of the legal framework concerning working with informal venture capital investors. As he stated:

> "*I know there are some investors who wish to invest their money, but the problem is with the law. There is no stipulation in Libyan law concerning these providers. If investors find the profit of the business insufficient, at any time they can take their money back, and sometimes this might be too difficult for the business to arrange. So, this is always stressful (SB, 4)".*

5.5.3 The Libyan equity gap

A shortage of equity finance is still considered as one of the most significant obstacles to the growth of small businesses in many different countries around the world (Macmillan, 1931; Bolton, 1971; Wilson, 1979; Ahmed, 1987; Lean & Tucker, 2001; Al-kharausi, 2003; Gualandri & Venturelli, 2007, Bannier & Grote, 2008). However, although the Libyan government recently became interested in making the Libyan financial market more effective, for example establishing a new stock market for large companies, and made some decisions to organize the Libyan financial market, the Libyan small business sector suffers from a lack of external sources of equity finance, to the extent that it is reasonable to describe this as an equity gap. The lack of external sources of equity in the Libyan financial market has contributed to a widening of the overall equity gap in the small business sector. According to the interviews, some of the owners of small business in Libya were seeking other sources of external funding such as equity, particularly because they were constrained by banking conditions and also by Islamic legislation in terms of interest.

The findings show that venture capital institutions are mostly absent from the Libyan financial market; there was a lack of awareness of equity funding in the Libyan financial market and the culture of equity funding was also mostly absent. The absence of a Libyan stock market also seems to have contributed to both the lack of knowledge of the concept of external equity and the equity gap itself. While formal and informal venture capital is considered one of the main sources of equity funding for small businesses in different countries of the world, the findings show that the immature stock market in Libya contributed to the existence of a gap in terms of the availability of formal equity funding to small businesses for the start-up stage or even for expansion activity. The literature review illustrated that mistrust between the state and the private sector has created several problems in the Libyan equity market, particularly in terms of the stability of legislation. Instability in legislation has caused the emergence of an irregular market. This claim is similar to the findings of Storey (1994), who pointed out that failure of the market can exist in the conventional financial markets for small businesses. The same author also found that although small businesses often have powerful business plans, they still prefer not to access external equity.

The majority of owners of small businesses in this study preferred to use their savings or borrow from their relatives or friends than to borrow from other institutions; because they wanted to be independent or they needed to keep control of their businesses. This result confirms the study conducted by Harding (2000) when he found that the owners of small business thought that they would lose control over their businesses if they accepted venture capital funding. It also confirms the result found by Mason and Harrison (1992), when they studied the extent of the equity gap in terms of both supply- and demand-side factors. In terms of demand-side they found that the owners of small businesses try to avoid giving up equity due to perceptions of control and independence. This desire for control, which is common to many owner-managers, is heightened in Libya by the instability of legislation and finance.

Most owners of small businesses in the sample (twenty-four out of twenty-seven respondents) used personal savings, family or partnership funding to fund their business at different stages. A minority of the sample (three respondents) used debt funding to fund their business. The findings of this study show that a perceived lack of loan funding, and non-availability of external equity funding contributed to the extensive use of informal venture capital. A large majority of the sample were dependent on family equity, friends and their savings to start up and expand their businesses, and sometimes to fund some informal transactions.

However, the findings show that there was mixed feelings about informal sources of funding. For example, several participants were afraid of the fact that if they accepted family funding that this might affect family relations if something went wrong, Joma stated that:

> "*Most of my family is rich; I can get capital from them at any time*. However, *with regard to the family, it will be better to stay away from family partnership because it may cause some discord in the work, which could result in losing my family (SB, 1)".*

Furthermore, several other participants thought that using equity from friends or other informal sources of equity, as a method of finance without a legally binding contract might cause problems for their businesses. They thought that investors without a contract could take his/her money back at any time, particularly if the small business produced only a small profit.

5.6 Debt funding

Debt funding is one of the external sources of finance which are available to small businesses in the Libyan market and is effectively confined to bank lending. The interview findings clearly showed that limited use was made of external sources of finance, particularly in the early stages. This section will focus on debt funding in terms of the awareness of the owner-managers of bank loan funding, attitudes to bank funding and attitudes to interest.

5.6.1 The use of external debt finance

The findings indicate that only three of the sample businesses in Libya had made use of bank loans (see Figure 26). While this is a very low proportion (9%), it is not much lower than the findings of Bozkaya and Potterie (2008) in a very different context, who when investigating the funding of 103 Belgian technology-based small businesses, found that only 18% of Belgian used external funding.

As previously mentioned, the Libyan banking sector is controlled by the government. This means that the government has the power to influence lending policy. Interviews conducted with twenty-seven owner-managers of small businesses show that small businesses in the sample are suffering from a lack of access to funding. Table 18 illustrates the frequency and percentage of owner-managers of small businesses who thought that obtaining finance was a difficult, and others who thought that it was not difficult.

Table 18: Obtaining external finance

	Frequency	Percentage
Difficult	23	85
Not difficult	3	11
Uncertain	1	4
Total	27	100

Moreover, when respondents were asked what the main problems facing the growth of their businesses were, twenty-three out of twenty-seven in the sample (85%) claimed that obtaining finance (lack of access to capital) was one of the main problems. Eleven out of twenty-three thought that access to bank loans required effort, time, guarantees and documents. In addition, other respondents thought that bank loans in general caused problems, particularly in terms of control and independence. Furthermore, owner-managers in the sample also thought that risk, cost and the issue of interest were barriers to accessing capital.

Six out of twenty-three respondents thought that the main problem associated with accessing bank loans was a lack of information. Information such as credit history, balance sheets and other documents were required to get a loan from banks and a lack of available information and guarantees created a gap of understanding between banks and small businesses (see Abor & Biekpe, 2006). One respondent was uncertain if obtaining finance was difficult or not, without giving any explanation.

5.6.2 Awareness and understanding of bank debt funding

In the sample, most of the owners of small businesses, when asked about the availability of external funding, answered that they were only aware of loans from banks. But, when they asked which kind of loans they were aware of, some of them answered that they had heard from friends that some banks would supply loans to borrowers. This lack of knowledge and experience might be illustrated this quote:

> *"Frankly, I have never tried, and therefore, I have not dealt with this aspect, but I think it is expensive, especially in the past, and it needs the borrowers to have a good relationship with the bank (Joma, SB 1)".*

Twenty out of twenty-seven of the sample thought that without a good relationship with the bank manager they would not be able to get a loan from the bank. In addition, small businesses, particularly in the early stage when they are without collateral and a good credit history, cannot borrow from banks easily. Libyan small businesses might face more difficulties than small businesses in other developing countries, especially in terms of the availability of loans. The banking sector in Libya is highly controlled by the government, and the sector is characterised by centralization. This centralization had made respondents believe that the banking sector might be constrained by the government. The absence of advertisements for banking services might have widely contributed to the lack of knowledge and experience of this sector. Most owners of small businesses in the sample did not have enough information about banks. Furthermore, they thought that banking was a complex sector, and that information, documents and a good relationship were required to get a loan. For example, when Kareem was asked if he had tried to get a loan from the bank, he answered:

> "*To be honest I have not tried, and I have not had a definite opportunity to get a loan from banks*. (And when he was asked again if there was any difficulty in obtaining a loan from bank), he stated: *Yes, I think there are difficulties*...yes; *there are difficulties such as management legislation, documents, procedures, guarantees and relationships...etc. All these, I think are difficulties when obtaining a loan from banks, and there is another problem, which I think is the main problem, which is the issue of interest, because interest is forbidden in Islam (SB, 21)".*

Another respondent when asked if he was aware of the availability of bank funding stated:

> *"Yes, there are bank loans, but I have not tried to learn more about banks, and all that I know is that there are a number of people who have borrowed money from banks who have failed, and those who have not failed are working under stress. In addition, their target has become how to return the money to the bank. In my opinion, the banks need high guarantees. I think there are difficulties getting a loan from bank, and that is why I did not try to take a loan from a bank (Mukhtar, SB, 23)".*

Salem, Alnass and Mohamed had different opinions about debt funding. For example, when Mohamed was asked if he was aware of the sources of funding that were available for small businesses, he said:

> *The third point is the interest rate; it is too high in the Libyan banking sector. We are afraid of failure, so if I could not repay the loan to the bank, then I would lose all my business, but if the capital is mine and for example my business fails, then I think there is no problem (SB, 27)".*

The findings show that the majority of the owners of small businesses thought that relationships were an important element when obtaining a loan from a bank. However, the fact is that in the Libyan banking sector, even if a small business has a positive relationship with its bank, this does not always mean that they can easily obtain a loan from this bank. According to some participants, small businesses without the mediation of '*wasta*[9]' (a close personal relationship) are not able to take bank loans easily, because family and tribal culture influence decision making in most aspects of Libyan life and '*wasta*' is an important aspect of this. The findings illustrate that investors without relationships could not get facilities. Owners of small businesses complained about the length of banking procedures and bureaucracy. They mentioned that without a relationship procedures were took between four months and one year, and if they had a '*wasta*' relationship it took only one month. In the banking sector, relationships were widely used. Participants mentioned that owners of small businesses, if they had a good '*wasta*' relationship with the management of the bank, can get a loan from the bank with a low guarantee. This finding is in accordance with the findings of Hutchings and Weir (2006), who tried to understand the influence of networking in China and the Arab World. They found that mediation (*wasta*) affected

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[9] Wasta is literally defined as Arabic for connections or pull and may be utilised as a form of intercession or mediation. Traditionally, the head of the family in Arab nations performed wasta services by obtaining for the supplicant what is assumed to be otherwise unattainable. In recent years, wasta has come to mean the seeking of benefits from government (Hutchings &Weir, 2006: p.278).

business and social life in Arabic countries. However, the awareness of debt funding was still governed by the importance of personal relationship.

Three out of twenty-seven respondents thought that the obtaining of finance was not difficult, because they already had guarantees, a good credit history and balance sheets. They also stated that debt funding was not required in the early period, because they had had enough money, as one commented:

> "*In terms of my business, I have enough money to manage my business, and I think there is no problem in obtaining a bank loan, because all documents, collateral and credit history are available. I know that the interest rate and the guarantees might be too high, but to take a loan from banks depends on the capacity of your work, and your income as well. In terms of my business as a construction business, particularly at this period, I can take a loan from a bank at any time, because this sector at this period has a huge amount of work in Libya (Hameed, SB, 20)".* And when he was asked if he had taken or tried to take a loan from the banks, he answered: *No, I have not tried, and I have not dealt with this aspect (Hameed, SB, 20).*

5.6.3 Perceptions of lending conditions and criteria

From the personal experience of the researcher, the bank's policy in the period covered by this study was to lend only short-term loans to small businesses. In addition, some of these banks made things even more difficult in that they also limited the amount of the loan to only LYD 40,000. The high proportion of collateral required (125% of the loan) also obstructed small businesses from obtaining a loan from a bank in the early stage. Owner-managers of small businesses felt that it was too difficult or might be impossible to offer 125% collateral for the loan. As one commented:

> "*I think it is too difficult to get money from the bank without a credit history and good relationship, or it might be impossible. Libyan banks require a guarantee for 125% of the loan. I cannot find this guarantee, even if I have a good relationship with the bank (SB, 24).*

Owner-managers of small businesses also felt constrained by the requirements of the banks. Credit history, guarantees and business plans were required from small businesses in the early stage, and even if these requirements were met, only limited amounts of funding were offered by banks for small businesses. A maximum of LYD 40,000 per person was offered by the Development Bank for investors to establish a new business. Respondents who borrowed money from this bank could not establish a big factory, because the amount of the loan did not include the cost of building and raw materials. Moreover, some of them had to import parts for machines. Others borrowed money from their family or used their savings to establish businesses. Respondents who borrowed from the bank, spoke about this limitation in the size of bank loans, and stated that there were many difficulties facing businesses who wanted to borrow money from the banks: As Alsidige said:

> "Our *plan was to establish a big juice factory…but the Development Bank lent just LYD 40, 000 for each single person of us, this amount was only sufficient for machines. We were three partners in this business. We only borrowed LYD120, 000 from the bank to establish a big juice factory. Actually, it was a small amount; this amount was not enough to establish a big juice factory. In addition, we needed a*

> *building for this factory, and money for raw materials.* (What did you do to solve this problem?) *Actually, it was a difficult problem, but to solve this problem, we imported a small factory for producing juice, and in terms of building, I have a small store at my home, we used it for this factory.* (What did you do about raw materials?) *As I told you, we were three partners in this factory; we used our savings to import the raw materials"* (Alsidige*, SB, 3).*

However, small firms often have greater difficulty than large firms obtaining funding from banks and other institutions, because they are often unwilling to lend to risky ventures (see Peterson and Shulman, 1987).

Respondent Ismaiel established a small construction business in 2007. This kind of business was widely required in that period in the Libyan market, because the government was establishing more than 250,000 houses in the whole of Libya. However, Ismaiel faced difficulties obtaining work in Libya due to his lack of business history. He stated:

> "*I established my business recently, my friends advised me to establish a construction business. The Libyan government had targeted to build 250,000 new houses in the whole Libyan area. They said there was a lot of work in the construction field, this claim might have been correct, but I found it difficult to get work, because I established my business in the last year. I spent a lot of money providing the capital for this business. It was a complete business, but when I requested work from government, they said your company is a new company, we cannot give you work; because you do not have enough experience in the field of construction. I met some*

leaders in the government and explained my problem to them. I did not know what they needed exactly, I have now been more than seven months waiting for work from the government, but unfortunately there is no work. Actually, I am afraid to lose my business" (SB, 14).

This finding confirms the result that small businesses face more difficulties in the early stage than large businesses due to a lack of financial information, guarantees and credit history (see Bozkaya and Potterie, 2008).

5.6.4 Perceptions of the cost and risk of bank borrowing

Lack of access to debt capital might be related to its perceived high cost. Twenty-one of the sample (about 78%) thought that bank loans were too costly, both in terms of collateral and interest rate. These twenty-one respondents also claimed that the other problem facing the growth of their businesses was the issue of interest. They added that it is forbidden by Islamic law. Three respondents thought that bank loans were not costly, without giving any explanation. Three other respondents were uncertain whether bank loans were costly or not. Table 19 illustrates the frequency and percentage of responses by owner-managers of small businesses in the sample.

Table 19: Bank loan costly

	Frequency	Percentage
Costly	21	78
Not-costly	3	11
Uncertain	3	11
Total	27	100

However, When Amer was asked if he needed finance to expand his business, he stated:

"We are always looking to expand our business, and we always need finance, whether to fund this business or to fund specific transactions. However, to get funding from banks is too difficult. It requires high guarantees. In addition, it requires a huge amount of documents and information (SB, 24)".

Owners of small businesses in the sample also thought that bank loans were too risky. Twenty three out of twenty-seven respondents (more than 85%) of the sample thought that bank loans were too risky for their business, because the interest rate was too high and the repayment period was too short (see table 20).

Table 20: Perceived risk of bank loans

	Frequency	Percentage
Risky	23	85
Not-Risky	3	11
Uncertain	1	4
Total	27	100

Three respondents thought that bank loans were not risky, because these three respondents had already borrowed money from the bank. One respondent was uncertain if the bank loan was risky or not, because his business did not require a bank loan, as he stated when he was asked if he was aware of the availability of external finance:

"*To be honest my problem is not with capital. I have enough money to expand my business, but the problem is with the state. I built this business recently, and this business is for construction and building. But, I cannot get work from the government, because I do not have enough work experience history, what can I do? Nothing, if this problem continues, then I will close this business (Ismaiel, 14)".*

However, on the one hand, most owner-managers of small businesses thought that the obtaining of finance was one of their main problems. On the other hand, several respondents thought that a bank loan might affect their control and independence over their business. For instance, when respondents were asked why they did not try to get a loan from the banks, five respondents in the samples stated that they did not want to be in debt; they thought that the debt funding might make them lose control and independence over their business. As one commented:

> "*I started this business with my money, and I built this business by myself. I spent all of my time and my money to make this business grow, so I do not want others to share with me in my business. I know capital is required for growth, and I know my business still requires more money. But, to be honest, I am happy to stay with this business without debt funding because the debt would make me stressed and might give me less control and less independence. So, actually I am happy with this business (Najat, SB, 15)".*

5.6.5 Attitudes to interest

As mentioned in the literature review, the Islamic method of finance is absent from the Libyan financial market. However, interviews show that one of the main reasons for the majority of owners of small businesses avoiding bank loans was the issue of interest. Twenty-four out of twenty-seven respondents thought that their religious objection to interest was one of the main obstacles preventing their businesses from taking a loan from a bank. Moreover, they preferred to borrow from Islamic banks rather than conventional banks, as one respondent commented:

> *"The problem with the banks which are present in the Libyan market is the issue of interest. As you know, interest is forbidden by Islamic*

> *law. So, I have avoided taking a loan from banks due to the interest they charge"* (Nasser, SB, 11).

In addition, when he was asked if he thought that if the government established Islamic banks or opened Islamic departments in the existing banks, which would narrow the funding gap, he added: "*Yes, I think so*" (Nasser, SB, 11).

Seven respondents mentioned that their objection to interest was one of the main reasons for avoiding bank loans. Furthermore, two out of these seven respondents thought that if they took a loan from the bank it might affect the reputation of their business, for example, they thought that many people would avoid dealing with their businesses. As Alnase stated when he was asked why he had not taken a loan from a bank to expand his business:

> "*As you know, our business depends on its reputation, and the number of students who decide to study in our school every year depends on the reputation of my school. So if I took a loan from the bank that might affect my business and that might make me lose the reputation of my business. Because as you know, in our culture many people avoid dealing with businesses that have borrowed money from banks, because they think this business is established in an illegitimate way (SB, 17)".*

This finding helps to confirm the claim that the Islamic religion plays an important role in the lifestyle of Libyan people (see Obidei, 1996).

Five other respondents thought that if they took a loan from a bank, they would lose their business, because they knew some people who had taken a loan from a bank, and their business failure was due to high interest rates and a short repayment period, as Ataher, commented:

"*The problem with the bank loan is the interest. Libyan banks charge a high interest rate and the repayment period is too short, so I know some people who took a loan from a bank to establish a business, however after two or three years their business failed, So I do not want to put my business at risk (*SB, 22)".

Three others, out of twenty-seven respondents, were already operating with bank loans. However, two out of these three respondents thought that their business was developing and growing, and they also thought that their business was safe. In addition, when they were asked about the issue of interest, they stated that they did not have any other source of funding, and therefore they did not have any other choice. As Mostafa stated:

"*As you know, salaries in Libya are not high enough for our life, so, I needed another source of income to give my family a good life. I could not find another source of capital to lend me money to establish a business. Actually, I did not have any other choice, only a loan from a bank (SB, 18)".*

Another respondent, who operated in the manufacturing sector, had recently found his business facing considerable obstacles to growth. This was as a result of the government's decision, as mentioned earlier, to allow traders to import goods from outside Libya, which meant that there were many national factories which could not compete with the goods supplied by foreign companies. As a result, some of these national companies failed. He thought that the main problems facing his business were the Libyan market, interest rates and repayment periods, as he stated:

"As I said when the government allowed traders to import goods from outside Libya, our turnover decreased rapidly by more than

> *50%, because foreign goods are cheaper and have higher quality than our products. In addition, the interest rate on my loan was 7.5%, and the repayment period was only five years. To be honest, it has become too difficult. I am working only to repay the loan. I am sorry about this phrase, but I can say my government killed us (*Alsidige, *SB, 3").*

Porter and Yergin (2006) found that Libyan companies face strong competition from genuine low cost suppliers. The same authors added that the factors contributing to the poor performance of Libyan companies were a lack of sophistication in production processes, insufficient employee training and low company spending on research and development.

5.7 Debt funding – the lenders' perspectives

This section addresses five interviews which were conducted with senior managers of lending in Libyan banks. The findings from these interviews reflect the perspectives of a sample of bank lending managers with experience of small businesses lending. More specifically, this section focuses on two issues in bank lending, which are the criteria applied to bank lending and the perceived constraints on bank lending.

5.7.1 The scale of bank lending

The interviews and secondary data suggested that the Libyan banking sector has made little contribution to small business funding in terms of lending. For example, the interviews determined that there were only 120 businesses which borrowed from the National Commercial Bank (NCB) (which has about 35 branches in the whole of Libya), and only 300 business loans were taken out through the Al-wahda bank (which has about 65 branches), and about 450 from the Development Bank, Misurata branch (during the period of

1990 to 2008). This lack of small business borrowing from banks could reflect the reality that small businesses face many difficulties in taking out bank loans.

When the senior lending managers were asked if they were happy with the number of small businesses that borrowed from their banks, one manager stated:

> "*I know the number of 120 small businesses is small, but what can I do? We predominantly lend to small businesses, which already have a licence and are registered with the government. We do not lend to individuals. So, this might be the reason for the low number of small businesses. In addition, the vast majority of owner-managers of small businesses who were rejected from this bank were rejected because they did not have enough information and guarantees. Furthermore as you know most of the funds in the bank acts as a deposit for others, so I am responsible for investing these deposits in a low risk way (TLM, 2)".*

When respondents were asked if they thought that the number of small business loans was appropriate for the size of their bank, all participants responded that it was not appropriate, and all of them were seeking to increase that number, as one claimed:

> *"No. it is not appropriate, so many small businesses do not have enough collateral, and most of the money in the bank is depositors' funds, so it is therefore our duty to maintain these funds and invest them in an appropriate way,* and when he was asked if he had a figure for rejected enterprises, he stated: "*No, but the number is relatively large"*. (In addition, when he was asked again if he wished to lend more to more small businesses), he answered: "*Certainly, if*

they provide guarantees that ensure the bank can make its money back, unfortunately the vast majority of requests from small business are not credible" (WLM, 1).

This made bank lenders prefer to lend to large businesses. Another respondent thought that the number of small businesses that were rejected from his bank every year was relatively large, as he commented when asked if he could say the number of small businesses that were rejected by his bank:

> "*I can say about 100 small businesses".* He added also that about 50 to 120 small businesses that borrowed money from his bank were faltering in their repayments, as he claimed: "*There were about 50 out of 120 firms that had a problem with the loan repayment, so regarding this, before any decision we need to look for the probability of success, if there is a big probability of success then we will give it another chance to solve its problem. On the other hand if it does not have any chance to succeed then we will move it to the court (TLM, 1)".*

Another respondent, when asked if he wished to lend to more small businesses, answered:

> "*Yes, there are instructions from the bank's management to support small businesses, particularly those working in the construction sector (TLM, 2)".*

Furthermore, when he was asked why construction companies particularly, he commented:

> "*Because, the firms working with the state are 90% guaranteed. In addition, all of these firms are already registered with the state,*

because they must have a licence before registration, and the proportion of risk in these firms usually does not exceed 10 % (TLM, 2)".

In addition, when asked about the reason(s) for a reduced guarantee for these firms, he stated:

> *"Because most of these firms are performing construction work for the state, so the government guarantees these firms. In addition, the competition from foreign companies does not affect this sector...".*
> Are there instructions from the central bank regarding increasing the guarantee proportion of small businesses to 125%? *"That was in the past, but it is now reduced and has become more flexible than before" (*What kinds of guarantees are required from small businesses?) *"We usually request real estate (TLM, 2)".*

5.7.2 Criteria for bank lending

The interviews confirmed that the banking sector was working under the guidance of the Central Bank of Libya (CBL), which required the banking sector to take guarantees from the small business sector of not less than 125% of the value of any loan. In addition, this guarantee should be secured by real estate. Furthermore, the CBL stipulates that interest rate charges should be between 5 to 7.5% on the loan. Furthermore information such as credit history, financial statements, the economic feasibility study and other documents were also required from small businesses to obtain a loan from banks.

However, when the respondents were asked if the bank loans provided were large enough to cover all the project's costs, they noted that to make sure that the project would be established, they made it a condition for the owner to contribute to a project by at least 25%, as one commented when he was asked if his bank covered all the project costs by its loan: "*No, the investor must contribute to the project at least 25% before taking out the loan" (GLM, 4).*

Another respondent stated that his bank formerly gave investors only LYD 40,000 for machinery, but now the amount had changed; it had become dependent on the economic feasibility study for the project (DLM, 3).

When respondents were asked what kind of loans were available for small businesses, all respondents answered that there were only short-term loans, which had 6 year repayment periods, and overdraft facilities which were available for not more than one year. In addition, when they were asked if they thought that the interest rate and repayment period were suitable for all projects, one respondent commented:

> "*I know 7.5% might be high for small businesses, but now the interest rate has reduced to 6.5% and in some cases to 5%, so this rate depends on the value of the guarantee, and in terms of the repayment period, I can say this is the policy of the bank. It is true that the bank might give short period loans, but it is based on the experience of the bank (TLM, 2)".*

Lending managers in the sample, when trying to make decisions to lend to small businesses, predominantly complained about the lack of collateral. All five respondents in the sample mentioned that collateral was one of the main problems facing them when making lending decisions. When asked what the main obstacles were when making lending decisions, all respondents answered that the lack of collateral was the main problem. Small businesses did not offer sufficient guarantees to the bank, which might have justified their loan request. Four out of five respondents mentioned that to reduce loan risk, they would prefer real estate as a guarantee for a loan, and one respondent commented:

> *"First of all, before any decision we have a committee of specialists to address all client documents. The job of this committee is study all clients' documents in terms of guarantees. The guarantee must be real estate (not houses) and the client's documents must include an economic feasibility study. They also need to know the kind of business that the client wishes to establish. For instance, if he wishes to establish a clothes factory that might well be directly rejected, because as you know clothes are very cheap in the Libyan market because most of them come from the Chinese market. In addition the committee should study the economic feasibility study, because sometimes it looks good, but only on paper. They also needed to check if the client has enough assets or not, that can generate enough money to repay the loan. The paid up capital should also be enough for business growth. Finally, small businesses must guarantee to ensure the flow of cash, at least in the first five years (GLM, 4)".*

Another respondent noted that his bank used a different idea in terms of collateral. The idea of his bank included two stages. In the first stage, the client had to contribute at least 25% of the value of the business. In the second stage, the bank could lend the client a loan to buy machinery only. In addition, the bank used the machines as a guarantee for its loan, but the absence of credibility caused some problems for the bank, as the manager of lending claimed.

> "*We use different ideas regarding bank loans. This idea includes a contribution from the investor in the project of at least 25%. After that the bank lends the investor money to buy the machines. In addition the bank uses these machines as a guarantee for the loan ... I can say that this idea succeeds with some people who are honest. But it has failed with others, because some of them imported used machines from outside Libya, and others imported low quality machines, so what was happening then was that the machines stopped working and the client stopped repaying the loan to the bank. The bank lost more money because the price of the machine in the market was so low. So, we have more than 40 of these cases in the courts. I think our work heavily depends on credibility, and guarantees, without credibility and guarantees we cannot work as we should (DLM, 3)".*

5.7.3 Other perceived constraints on bank lending

In general, the interviews showed that the banking sector was severely constrained when making decisions about lending to small businesses. In addition to the lending rules, managers responsible for lending faced additional constraints when trying to make decisions for lending to small businesses. Some these constraints were lack of information, lack of credit history, lack of financial statements, and lack of credibility, among others. This gap was found to have emerged from the lack of information and the lack of credibility between the banking sector and small business sector.

Another manager of lending, when asked about the relationship between banks and small businesses stated:

"I think it needs to be clear and have high credibility... I also think that information is nearly nonexistent in the field of small business, so it is too difficult to make a lending decision without information (WLM, 1)".

In addition, several senior managers of lending in the sample thought that credibility and guarantees were the main obstacles facing them when they tried to make a lending decision for small businesses. As one commented:

"The problem with small business is with credibility and guarantees, so I can say that the main problem facing us when trying to lend to small businesses is their credibility. Small businesses give us unrealistic documents. We have more than forty cases with the owners of small businesses in court. I think the reason for this is the lack of the credibility of the information and the guarantees (DLM, 3)".

When asked if there were any announcements or advertising regarding the availability of loans for small business, all of the respondents answered no. In addition, a participant, when asked about the relationship with owner-managers of small businesses, stated:

"*To be honest I can say that in Libya, marketing is almost excluded from the bank sector, so there are no periodicals or media to promote the loan culture...and this problem must be taken into account in the future, especially in light of recent changes in the Libyan market* (TLM, 2)".

Furthermore, when respondents were asked if there were specific documents required from small businesses to obtain a bank loan, all respondents answered that there were. But one of them noted that small businesses, if established in a legal way, should have all the documents necessary for getting a loan (TLM, 2). Another respondent also noted that the problem facing small businesses was the size of guarantee, because in existing bank conditions the guarantee had to be real estate and must be legally registered to the state (ALM, 5).

5.8 The Libyan debt funding gap

On the basis of the findings discussed above, it is reasonable to conclude that there is a debt funding gap in Libya. Although the banking sector is considered the main external source of funding for small businesses in Libya, findings show that Libyan small businesses faced difficulties obtaining debt funding. The owner-managers of small businesses in Libya complained about difficulties facing them when they tried to access bank loans, such as lack of knowledge and awareness of bank loans, lack of sources of bank loans, high interest rates, the need for a close relationship with decision-makers at the bank, too much bureaucracy, high guarantees required, a huge amount of documents required, financial statements required, etc. However, in terms of the lack of knowledge and awareness of bank funding, the findings show that the majority of the sample had little understanding and knowledge about bank funding or did not want to find out.

This lack of knowledge and experience might have been compounded by the outdated and complex system which operated in the Libyan banking sector. The findings also show that business funding was tightly controlled by government policies. In addition, Libya uses a closed financial system. Advertisements about the availability of funding to small businesses were almost absent in the Libyan banking sector. Furthermore, small businesses also suffered from the lack of availability of alternative debt funding sources. The banking sector in Libya was tightly controlled and dependent only on the national banks, which consist of five commercial banks and some other specialized banks, which means there was a lack of availability of debt funding sources for small businesses. Key issues in this debt gap are summarized in the following sections.

5.8.1 High guarantees and interest required

The limited use of debt and the absence of foreign banks, such as Islamic banks, might have contributed to increasing the debt funding gap in the Libyan financial market. In addition, the local banks required high guarantees from small businesses before providing a loan. Interviews conducted with five senior managers of lending in banks show that a minimum of 125% of the value of a loan was required as security from small businesses, in order to obtain a loan from the banks, and also they were charging interest rates of between 5% to 7.5% on these loans. This proportion of guarantee and interest reflects the size of the gap between lenders and borrowers in the Libyan financial market. Owners of small business had to contribute at least 125% of assets before obtaining loans from the banks (Bell, 2005).

Banks complained of the risk of loans to small businesses, because they were not able to collect enough information about them. However, due to the high loan risk of small businesses, banks required high guarantees and interest rates on small business loans.

5.8.2 Low levels of awareness and understanding among small business owners

The small business owner-managers in the sample showed a very limited understanding of bank lending. Only three respondents had any direct personal experience of bank lending, having taken out loans to fund their businesses. It is striking, but perhaps not surprising, that these same three respondents had very different perceptions of the availability, cost and risk of bank funding.

The findings show that the majority of the owners of small businesses thought that obtaining bank loans required a good prior relationship with decision-makers at the bank, perhaps even over-estimating the importance of this, as well as cost and risk.

5.8.3 Bureaucracy and slow decision-making

The findings of this study suggest that control of the banking sector was highly centralized. Most branches of the banks in the cities around Libya were not able to lend to small businesses without approval from the central management of the bank. A huge amount of documentation was also required from small businesses to obtain bank loans. All these documents were transferred to the senior managers of lending in the central management for approval. Some owners of small businesses complained about this method, and they stated that the process took too long, and that at the end of it, they were often rejected. Too much bureaucracy was applied in the banking sector, particularly to small businesses. Owners of small businesses were often left waiting from six months to one year to receive a decision about a loan from a bank. In addition, even if small businesses had approval from the central management to have a loan from the bank, they often did not give approval for all the capital required, which made owners look for other, more informal solutions. The bank managers were unable to give persons or even owners of small business more than LYD 1,000 as an overdraft facility, per month. Credit cards were almost completely absent in the Libyan banking sector. Users were only able to use cash or cheques to transfer money or to complete their daily transactions. Moreover, transferring money from one city to another inside Libya often took between fifteen days to one month.

5.8.4 The asymmetric information problem

Some of the owner-managers in the sample were unwilling or unable to provide all of the financial information which was required by the banks. The study findings show that the vast majority of small businesses had not prepared financial statements; however, these records were required by banks before any decision to lend to small businesses. Most small businesses suffered from a lack of accounting experience and from the availability of specialized accounting services. Financial statements are important to making judgments about the ability of a business to repay a loan (Collis and Jarvis, 2002), but when owner-managers were asked how they used financial information when they tried to make funding decisions, the opinion of the vast majority is represented by this statement:

"*We only need to look for the availability of the money in our account in the bank; if there is money then we can make any funding decision"* (*Joma, SB, 1*).

The findings show that there was asymmetric information between banks and small businesses. Many researchers have found that the asymmetry of information between lenders and borrowers is the fundamental reason for the financing gap (Macmillan, 1931; Bolton, 1971; Storey, 1994; Lean & Tucker, 2001). The banks included in this study were unable to lend to small businesses because there was a low level of information available about the financial situation of the small businesses. Credibility was difficult to establish, and managers of lending in the banks complained about the lack of information available from small businesses, and from the lack of credibility within their documentation. Findings from the interviews conducted with five senior managers responsible for lending in banks show that when small businesses tried to borrow money from the banks they would present unrealistic documents to the banks, which meant that banks tended to focus their lending only on particular sectors of the economy which were guaranteed by the government, such as construction firms.

5.8.5 The adverse selection problem

Managers of lending in banks attributed the problems of lending to small businesses to adverse selection. They stated that they were unable to differentiate between businesses which might have low risk and those that might have high risk. This result confirms the results found by Ariccia and Marquez (2006), who found that the market for lending was sensitive to information, and that any lack or changes in the information structure might cause a banking crisis. They added that information asymmetries between banks and borrowers might lead to a decrease of the standards of lending. In this study, it is clear that the banks had difficulty collecting loan repayments from small businesses, and some small businesses, particularly in the manufacturing sector after trade liberalization, became unable to repay loans to the banks. Libyan banks found decisions about borrowers would be able to repay their loan extremely problematic, and the high interest rates and guarantees they set might be seen as reflecting this problem of adverse selection (Jackson & Thomson, 2006).

Some other respondents pointed out that Islamic culture and attitudes to interest in Islam were one of the obstacles to the growth of their businesses. The next section will discuss Islamic finance methods and how they influenced small businesses when considering bank loans.

5.9 The Islamic funding issue

Whereas Obeidi (1996), Twati (2006) and Vandewalle (2006) mentioned that the Islamic religion affects the structure, values and attitudes of Libyan society, it is also considered a main unit of loyalty and identity. The findings show that Islamic banks do not exist in the Libyan financial market, and that as a result Libyan small businesses might be constrained from seeking funding by the absence of this service. Several small businesses were unwilling to borrow from banks because interest is forbidden by Islamic law, and when respondents were asked what were the main obstacles facing growth of their businesses, the majority of respondents thought the issue of interest in Islam was one of the main problems. However, the absence of Islamic banks in a country like Libya might be considered unusual, because Islamic finance methods exist in the huge number of countries in the world. This absence might reflect the immaturity of the Libyan banking system or the role of the government in terms of controlling external sources of funding.

The lending managers attributed the absence of the Islamic banks in the financial market to government policies. They stated that the Libyan government thought that if it allowed investors to establish Islamic banks that this might affect the existing normal banks, because they thought that Libyan people would move to deal with Islamic banks rather than existing banks. This is due to the fact that most people would rather avoid dealing with banks that charge interest on their loans. They also thought that the first step of the Libyan government should be to establish Islamic departments inside existing banks, and then slowly move to establishing other new Islamic banks, or allow foreign Islamic banks to work in Libya.

However, while some of the respondents preferred to use Islamic funding methods than conventional interest-bearing ones, the findings show that some other respondents did not wish to deal with either conventional or Islamic banks. This was due to the fact that they thought that if they borrowed money from conventional banks or chose to work with other Islamic methods that might constrain their control on their businesses. In this way they preferred to stay away from either conventional bank loans or Islamic financing methods.

5.10 Cultural issues

Culture, family, relationships and religion play a vital role in Libya. Tribes and families in Libya have strong social ties; however, culture and religion widely affect the Libyan economic environment (Twati, 2006). Much research in different countries around the world has found that families play a key role in start-up and development of small businesses (see 3.4.2.2). The findings of this study show that Libyan families play a particularly dominant role compared to other countries in terms of small business funding and development. The findings show that the majority of respondents grew up working within the family context and had good family business backgrounds. Family culture in Libya affects all aspects of business life. Many small businesses are established and financed by families, and reputation and religion are very important factors in Libyan family networks and social relationships in the market. Family issues are particularly important in Libyan small business.

This section is designed to discuss some other important issues that relate to the financing of small businesses, which are family culture, relationship and gender. The discussion of these issues will give readers greater understanding of the financing of Libyan small businesses in terms of uses, attitudes, sources and constraints.

5.10.1 Libyan family culture and funding

Family culture might also have an effect on the success of family businesses, because most Libyan families seek to keep their businesses and operating at a successful level. The findings illustrate that Libyan families were keen to help their members to establish new businesses, and to own separate businesses within the context of the family. Libyan families were concerned with their reputation in the market, and they also predominantly operated their business within the Islamic culture (Obidei, 1996 & Twati, 2006). This finding might reflect the fact that Libyan families were heavily dependent on their own capital to establish or expand their businesses.

The findings show that the Libyan people have strong social ties and that the Islamic religion widely affects these Libyan small businesses. Participants had different opinions about family funding, as Marie stated: "If *everything is clear, and the work is divided between all family participants, then family funding should be ok" (SB, 7)*.

However, when participants were asked if they preferred to use family funding, thirteen respondents answered that if they stayed away from this aspect, it might be better for family relations, because they thought that if misunderstandings happened or the business failed, that might affect their family relationships.

> *"Family funding is one of the best sources of funding for small businesses, but dealing with family is too difficult, especially if you are dealing with money. Actually, I did not deal with this form of funding; because I do not want to lose my family (Kareem, SB, 21)".*

Other respondents thought that a partnership was better when compared with family funding. They thought that if misunderstanding happened between partners, that would not affect their family relations. The findings show that there were some owners of small businesses who preferred to work inside the context of the family, other owners preferred to work within a partnership, while other participants preferred to operate alone rather than to engage with their family or a partnership. However, although a number of small businesses were established by families, some owners claimed that their families were unable to offer all capital required to expand their businesses, due to their limited wealth. In this case, other external sources of capital were required to make their businesses grow.

5.10.2 Relationships

Relationships were an important factor in the Libyan market. Owners of small businesses in Libya believe that, without good relationships, getting facilities from institutions was too hard. As Ismaiel stated:

> *I met some leaders in the government and explained my problem to them. I did not know what they needed exactly, I have now been*

more than seven months waiting for work from the government, but unfortunately there is no work. Actually, I am afraid to lose my business" (SB, 14).

Although within the Libyan banking sector even small businesses are required to have full documentation and good records available, several respondents thought that without 'wasta' they could not take a loan from the bank easily. It is arguable that family, tribe and personal relationships control all areas of life in Libya. Twati (2006) noted that social relationships are considered one of the special characteristics of Libyan culture. Tribes and families play a vital role in the structure of social relationships in Libya. The cultural context is such that the development of social groups outside the family is difficult to establish. Owners of small businesses in Libya complained that they were not able to take advantage of basic facilities without relationship or 'wasta'. In the banking sector also, relationship 'wasta' is widely used. Respondents were unable to get even simple bank facilities. As one commented:

"*I think it is too difficult to get money from the bank without a credit history and good relationship, or it might be impossible (SB, 24).*

Libyan culture is characterised by high masculinity, high power distance, high uncertainty avoidance and low individualism (Twati, 2006), which negatively affects the communication among employees in the process of management. A number of participants in this study stated that procedures without 'wasta' took between four months to one year, whereas if they have 'wasta' it took only one month. They also added that if they have 'wasta' with the main management of the bank, they could get a loan from the bank with a low guarantee. This finding confirms the results found by

Hutchings and Weir (2006), when they found that in the Chinese and Arabic worlds, 'wasta' had a profound and wide effect on business and social life.

5.10.3 Gender

Findings in this study show that small businesses owned by women may face more difficulties and constraints and lower access to external funding than those owned by men (see Robb and Coleman, 2009). In an interview conducted with the woman owner of a small business in this study, explained that she was face difficulties in terms of managing her business. Although she had a good background and experience and management skills, her brother was managing her business, and when she was asked about it, she stated:

> *"As you know, in our culture it is too difficult for me to deal with other institutions. In addition, I have children who need some help and care, so my brother and I can say all my family helps me (SB, 15)".*

Similarly to men, when they were asked about loans from banks women participants, stated that they could not borrow from banks due to their objection to interest. Interest is forbidden in Islam. As Sanaa commented:

> *"Although external funding was required to expand my business, I could not take a loan from the bank. As you know, our religion forbids interest, so I borrowed money from my family (SB, 26)."*

In this area it is difficult to develop 'wasta' in a female context. It might lead to unwelcome compromises.

Although a number of issues related to gender issue were addressed in this research, due to time constraints, the researcher would suggest here further research into women-owned small businesses in the Libyan context that is appropriate and useful to from a deeper understand about this subject (see section, 6.8.3).

5.11 Management issues

This section is designed to discuss some other important issues that relate to the financing of small businesses, which are cash flow management, credit sales issues and business planning. The discussion of these issues will give readers greater understanding of the financing of Libyan small businesses in terms of uses, attitudes, sources and constraints.

5.11.1 Cash flow management

As mentioned in chapter 3, cash may be considered the lifeblood of a business. A business without regular cash flow is likely to fail. The management of cash flow allows businesses to avoid the liquidity hazard, and a cash flow budget can be considered ‘the eye’ of the management, which controls their work and the expected flow of cash in and out of the business. However, twenty-seven interviews conducted with owner-managers of small businesses in Libya show that most of them had a problem with cash flow. When respondents were asked what the obstacles that might be constraining the growth of their business were, twenty-two out of twenty-seven respondents answered that cash flow was one of the main obstacles. Sixteen out of twenty two respondents attributed this lack of cash flow to the increase of the credit sales phenomenon in the Libyan market, as one respondent stated:

> *"Credit sales in the Libyan market have become compulsory, if you want to sell your goods. The reason is that the owners of capital have been allowed to sell their goods by credit sales. They can afford to wait two or three months and sometimes up to six months, and therefore we have to follow this method to sell our goods, and this has already adversely affected our business, because there is a part of our capital which is not exploited in the development of the business (Joma, SB,1)".*

Eight out of twenty-two respondents (particularly those who were operating in the manufacturing sector) attributed this problem to the government. They claimed that when the government allowed traders to import from outside Libya, most of the local industry was damaged, because they could not compete with foreign goods. In addition, sales in the manufacturing sector decreased and many factories suffered from a lack of liquidity, as one respondent commented:

> *"I cannot believe that our government killed our business. It allowed traders to import goods without any protection for local production. So, our production could not match foreign goods, because as you know, most factories in Libya have old systems. Therefore, due to lack of sales, the number of employees reduced. Our business started to disappear. So, if this situation continues, I will lose my business (Mansur, SB, 5)".*

The increase in credit sales has created cash-flow problems particularly for trade sector.

Another eight, out of twenty-seven respondents, gave a different answer to the question of what the main obstacles to growth of their businesses were. Five out of eight respondents stated that they were uncertain if their cash flow constrained their businesses or not, because most of them had recently started their business and their businesses were relatively small. The other three out of eight respondents thought that cash flow was not an obstacle to the growth of their businesses, without giving an explanation for this opinion. However, when respondents were asked if they had prepared cash flow forecasts for their business, only one respondent answered that he had prepared cash flow planning. The other twenty-six respondents stated that they did not have any plan for cash flow, and they gave different reasons. For instance, twenty-one out of twenty-six respondents attributed the lack of cash flow planning to the volatility of the Libyan market; as one respondent stated:

> "*The Libyan market is an irregular market; so I cannot build any forecast about it. Government decisions are changing all the time. It depends on random decisions; actually it is a horrible market (Amer, 24).*

Five other respondents ascribed their failure to plan cash flow to a lack of accounting experience, as one respondent commented:

> "*As you know, to prepare a cash flow forecast requires a good background in accounting, and as you have seen my business is not too big, so I manage my business by myself. To prepare cash flow planning, that might require some experience. To deal with somebody who has expertise in accounting, requires more expenses and my business is not big enough to bear more expenses (Sanaa, SB, 26).*

5.11.2 The credit sales issue

Credit sales are a common method of trading widely used between traders and sometimes also used in the manufacturing field. The findings show that Libyan small businesses working in the trade and manufacturing sector faced a credit sales problem. While some owners were used to this method as a means of short-term funding which would lead to growth in their businesses, other respondents were afraid that the increase in credit sales might lead to the loss of their businesses. In addition, the owner-managers of small businesses complained about the credit sales method, and mentioned that this method of sales had become compulsory in the Libyan market. This led them to think that if they refused to deal by means of credit sales, then their customers would move to another supplier who would offer credit.

However, lack of information about Libyan small businesses might increase this problem. Owners of small businesses were unable to build expectations about personal credit referencing; they were only dependent on their friends or business network to get the required information. *"Before granting a customer any credit sales, we must take care. I have to inquire from friends about the wishes and thoughts of the customer regarding credit sales (Joma, SB, 1)".*

Furthermore, some small business owners depended on credit sales to resolve cash flow problems, this might be a useful measure if the demand in a market is regular, but, in the Libyan market it might be too difficult to predict the demand for any goods. Respondents complained about increases in the proportion of the bad debt, and the findings show that the increase in the use of credit sales had contributed to a rise of the bad debt average. The next chapter will discuss some cultural issues particular to the Libyan economy, such as family funding, partnership, and relationships.

5.11.3 Business planning

With regard to the literature, business planning is widely accepted as contributing to the development and growth of businesses (Schwnk and Shrader, 1993; Kuratko and Hodgetts, 2004). The importance of a business plan can be seen throughout, whether in the start-up period, particularly when loans or overdrafts are required from banks, or in the expansion stage when the business needs more funding. Moreover, banks need to see a business plan before making any lending decision to small businesses. A business plan is also required for owner-managers to ensure control and security for their business. Furthermore, to achieve their goals, businesses should have clear objectives. Small businesses, without planning their goals or updating their business plan, might face more difficulties, particularly if a bank loan is required. While business planning is considered one of the main factors in business success (Kuratko and Hodgetts, 2004), the findings show that it is almost absent in the sample. Lending managers complained about credibility and the absence of written business plan; as one manager of lending in banks stated:

> "*The problems related to small businesses are the guarantees and credibility. Small businesses are obscure. There is no written plan, and if there is, it is not realistic. So, I cannot give a loan to anybody without positive guarantees (LM, 5)"*.

In addition, a lack of interest in business planning emerged from an analysis of the findings. Owners of small businesses might have less experience and an inadequate education background. Furthermore, a lack of financial information and other factors such as industrial development and government policy might be a constraint on business planning. While education is considered one of the most important factors that have a positive effect on owner-managers' behaviour (Storey et al., 1993), the findings show that there were a number of owner-managers in the sample who did not have a high level of education. Table 21 illustrates the owner-managers' levels of education.

Table 21: Owner-managers' level of education

Qualification	Frequency	Percentage
Graduate	15	56
Non-graduate	12	44
Total	27	100

Table 21 shows that twelve out of twenty-seven respondents (about 44%), did not have a graduate level of education, and fifteen out of twenty-seven did. But, when they were asked about their business plans, only one respondent stated that he had written a business plan early, and he updated his business plan every year[10]. Other respondents attributed the absence of the business plan to certain obstacles, which they thought might have been a constraint on their businesses.

The majority of the sample stated that the bureaucracy of the government was one of these factors, as one respondent commented:

> *"I will give you an example, in the late eighties and early nineties we decided to establish a factory to produce diapers, and the expectation of succeeding in this business was estimated at 90%. The estimated value of building this factory at that time was about $ 400,000, which was equivalent to about 120,000 LYD. At that time there was the possibility to establish this project, but the reason for the abandonment of the idea, was the difficulty obtaining the raw materials, because it was necessary to do this via the secretariat of industry. I found that were obliged by this secretariat to import raw*

[10] This was the owner-manager who also prepared a cash flow forecast. He also prepared financial statements and he was working with a highly developed management system.

materials to the value of not more than LYD 60,000 per year, which meant LYD 15,000 every four months. This amount (LYD 60,000) was enough only for the operation of one week at one shift (eight hours per day), because the factory was proposed to produce about 50,000 pieces every eight hours (Joma, SB, 1)".

The second factor was the lack of experience and education level that might have contributed to the absence of business planning in a number of the small businesses in the sample. When respondents were asked if they prepared financial statements, only three respondents stated that they had done so, and also had a good management system in their business. The findings show that the majority of small businesses in the sample were working without financial records. When respondents were asked how they could make funding decisions without financial records, they stated:

"*It is very easy. I just need to check my account in the bank; if there is money there then we can make any funding decision (Nasser, SB 11)".*

Other respondents connected the absence of a business plan with the Libyan market and the government decisions, as one respondent commented:

"*I tried to make a plan for my business. But the problem was that I couldn't predict what would happen in the Libyan market next year or maybe next month. As you know our problem is with the Libyan market, it is an unclear market, and I cannot make any predictions about it, there is no fixed legislation, it is too difficult (Alnaas, SB 17).*

Other respondents who were working in the field of manufacturing thought that preparing a business plan might be difficult, particularly in their business, because they thought that they could not predict the turnover of their business. They added that the turnover of their business depended on the demand of the market, and the Libyan market is an irregular one, as one respondent commented:

> "*We could not prepare a plan for our business because* we *could not predict our turnover. However, the demand on local production depends on the lack of foreign goods in the market, so it is too difficult to make predictions for turnover in this market (Mansur, SB 5)".*

5.12 The political and economic context

As mentioned in the literature chapter, the Libyan economic context has undergone significant changes, which have been linked to government policies. The changing policies of the government have brought with them advantages and disadvantages. While the Libyan government seeks a more open economy, which would allow for the private sector to emerge, it did not introduce the legislation that would protect local investors. Several participants have suffered from the instability of the decisions of the government.

5.12.1 Changing government policies

The findings show that the majority of participants complained about the instability of government decisions. A lack of realism in government decisions was seen to have significantly affected the growth of Libyan small businesses. Owners of these businesses were afraid of the random nature of government decisions, and a lack of confidence between owners of small businesses and the state created a kind of constant fear for investors.

For example, Mohamed said:

"*To be honest, we wish to expand our business, but we are afraid of some things which might constrain us. For example, we are afraid of the Libyan market, the Libyan market is an unsecured market both in terms of demand and in terms of the state. To be honest all traders are afraid of government decisions. The legislation and decisions of the government are not fixed, and they change from time to time. At any time the trade might be canceled by the government. Today importing is allowed for all traders, it might be closed tomorrow, at all times you should be careful of new government decisions. The second point is the Libyan market, it is a small market; perhaps a multiplicity of activities is better than expanding one business (Mohamed, SB, 27).*

Investors were unable to take loans from banks or other institutions due to the instability of government decisions. For example, owners of small businesses working in the manufacturing sector suffered from the decision of the government which allowed traders to import any goods from outside Libya without any support for local production. Many factories in Libya were unable to survive due to this decision by the Libyan government, particularly those depending on raw materials imported from outside Libya.

5.12.2 Excessive bureaucracy

Interviews conducted with the owner-managers of small businesses showed that small businesses in the sample also felt themselves constrained by the bureaucracy of Libyan institutions. Too much centralisation, too many documents and the long time required for procedures were identified as obstacles to the growth of the small business sector in the Libyan economy. The vast majority of respondents in the sample claimed that their small business was constrained by the bureaucracy of institutions. For example, when Joma was asked if he had recently expanded his business, he answered:

> "Yes, *I have tried, but unfortunately, I have faced many difficulties*. And when he was asked if he could explain that, he added, *I have prepared a plan and integrated study to expand my business, but unfortunately, it did not obtain approval from the government*. And when he was asked why, he claimed: "*In the past period all approvals were issued by the Secretariat of Industry, and even if the capital is fully paid from the investor, it does not mean he or she will get the approval for the importation of machinery and equipment or raw materials easily" (SB,1).*

Respondents Najat and Alnaas, who both operated private schools, when they were asked what obstacles faced the growth of their business, pointed out that one of the main problems facing the growth of their business was bureaucracy, as one respondent commented:

> *"I can say that there are no firm decisions in the state, for example, today we are following collaborative learning, maybe tomorrow vocational training, so there is no fixed legislation to organise our business. In addition, too many documents are required and there is also too much complexity in the procedures, for instance, whenever the new secretary-cost comes, that means new documents will be requested, and he will also supercede the previously required documents (SB,17)"*

Small businesses in the sample also faced excessive bureaucracy in terms of the procedures necessary to obtain both government licences and loans from the banks.

However, in terms of procedures, small businesses faced great complexity in the documents that were required for obtaining a government licence. For example, when respondents were asked how long their business had taken to get a licence from the government, all respondents answered that it had taken a long time, and the period that was mentioned by respondents was between two to six months.

When respondents who had taken loans from the banks were asked how long it had taken them to get a loan from their bank, they gave different answers, but the period mentioned was from six months to two years. For instance, when Omer was asked how long he spent waiting to obtain a bank loan, he claimed:

"*Two years, and to be honest there was too much bureaucracy in terms of procedures and required documents (SB, 9)".*

5.12.3 Market size

As mentioned earlier, the Libyan population is estimated at approximately six million, which means the Libyan market is small compared with other neighbouring markets such as Egypt and Algeria. As a result of this limitation, small businesses in Libya could face greater difficulty raising bank loans or dealing with trade credit (see Porter and Yergin, 2006). The interview data shows that owner-managers of small businesses avoided borrowing from banks due to fears related to the capacity and demand of their home market. When respondents were asked if there were any limitations to the access of funding, seven respondents answered that the capacity of the Libyan market was one of these limitations, and one respondent commented:

> "*The owners of capital were afraid about the operation of lending, and even if there were those who wanted to lend to small businesses,*

the size of the market was not broad enough for partnerships (Joma, SB, 1)".

Another respondent claimed: "*The problem is that the capacity of the Libyan market is not enough to import a large quantity of goods, so I cannot venture to borrow money from the bank, because the Libyan market cannot guarantee sufficient liquidity to repay the loan on time (Amer, SB, 24)".*

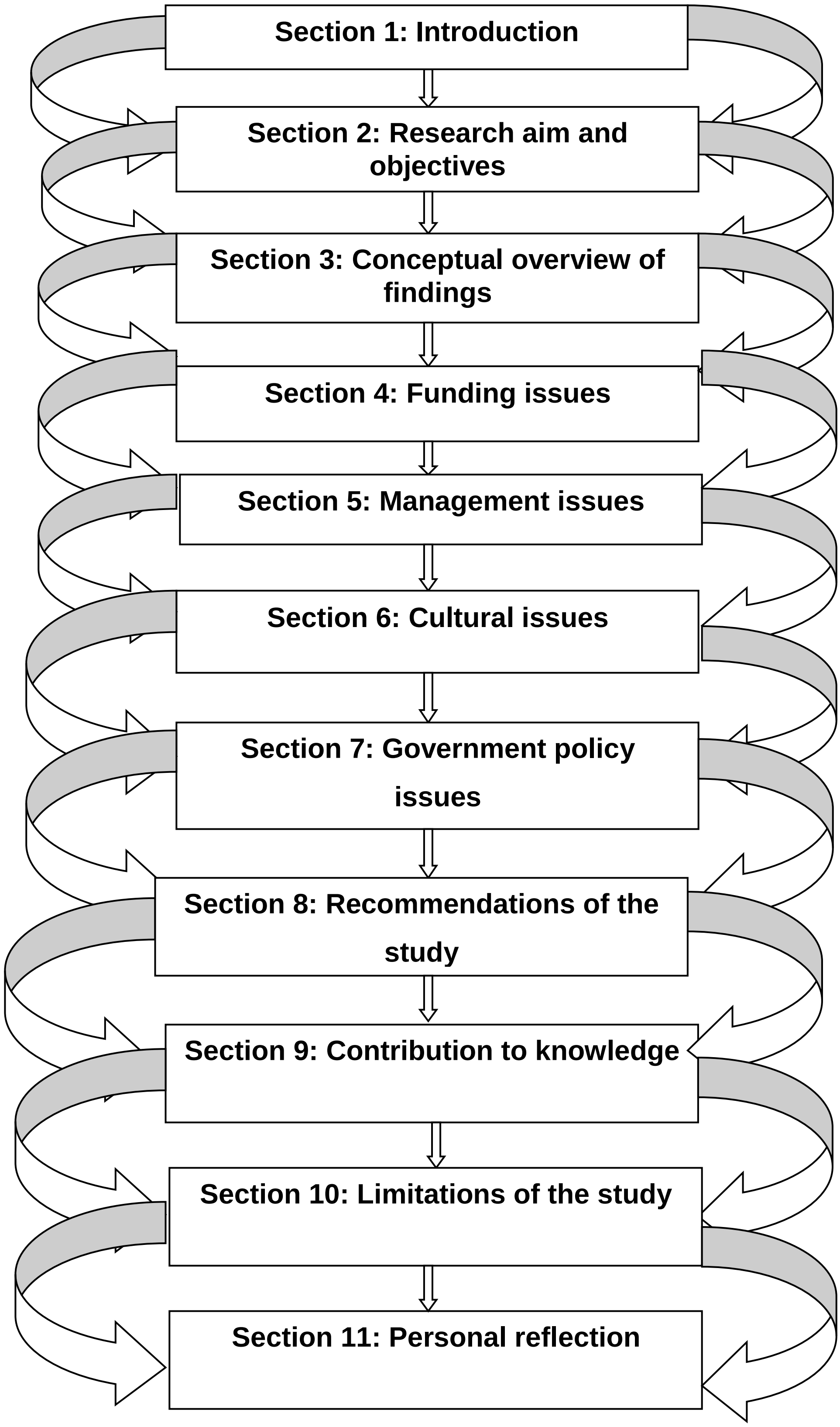
Respondent Mukhtar, when asked why he did not try to borrow from external sources of funding stated:

> "*Frankly, I have fears about the capacity of the Libyan market, because if I did not have received a good return on the amount of the loan, then that might make me lose my business (SB, 23)".*

Having presented and discussed the data collected from the interviews, the next chapter will present the findings and conclusion of this research. The manner in which the research has contributed to knowledge will be discussed, and suggestions for future research will be made. The chapter will end by a brief personal reflection by the researcher.

Chapter 6: Conclusions and Personal Reflection

Figure 27: Structure of chapter 6



6.1 Introduction

This chapter provides further interpretation and draws together the findings that have emerged from this research. These findings are presented and summarised in the framework created by the researcher as a model for this research (see 6.3). In addition, the main findings and conclusions drawn from this research are synthesised and contextualised with the findings of previous research as discussed in the literature review (Chapters 2 and 3). Some other important issues, such as contribution of the research to knowledge, limitations of the research, policy recommendations, reflections, and suggestions for further research are also presented in this chapter.

6.2 Research aim and objectives

The main aim of this research was to explore the funding of small businesses in Libya in terms of sources, uses, attitudes and constraints, and to make tentative policy recommendations. The objectives associated with the research aim are:

- To explore ways in which small businesses in Libya are financed.
- To interpret the difficulties and constraints facing owner-managers of small businesses in Libya in terms of financing.
- To explore the ways in which owner-managers of small businesses use financial information for making decisions.
- To develop a conceptual model highlighting problems specific to the Libyan context in the financing of small businesses.
- To make tentative recommendations concerning the forms of small business finance and support that will facilitate support in the future economic growth development of Libya.

In order to achieve the aim and objectives of this study it was necessary to perform a review of related literature, which was presented in chapters two and three. The research design and methodology was presented in chapter four. Two main groups of participants selected by a snowball technique were utilised as a sample to provide a database for this study. The first group included twenty-seven owner-managers of small businesses and the second group included five lending managers working in the main banks. An interpretive philosophical position was chosen to frame the study and a qualitative research approach was adopted to carry out this research. An interview technique was used as the principal method of data collection for this research. The collected data and their analysis and interpretation are presented in chapter five. A continuing traditional process of analysis was adopted, comprising identification of the research themes and sub-themes. The template analysis technique was then carried out to identify patterns, processes and relationships between the variables, allowing conclusions to be drawn and recommendations to be made.

This research has achieved its objectives and has developed an in-depth understanding of the financing of small businesses in Libya. The study also identified the difficulties and constraints the owner-managers of Libyan small businesses are facing when financing their business. The use of financial information by the owners of small businesses when making decisions was also examined. The major findings are then combined together to create a conceptual framework (model) showing the main obstacles challenging the financing of small businesses in Libya. The chapter then concludes with recommendations for key stakeholders as well as some recommendations for future research. The following sections present the conclusions reached about the five research objectives.

6.3 Conceptual overview of findings

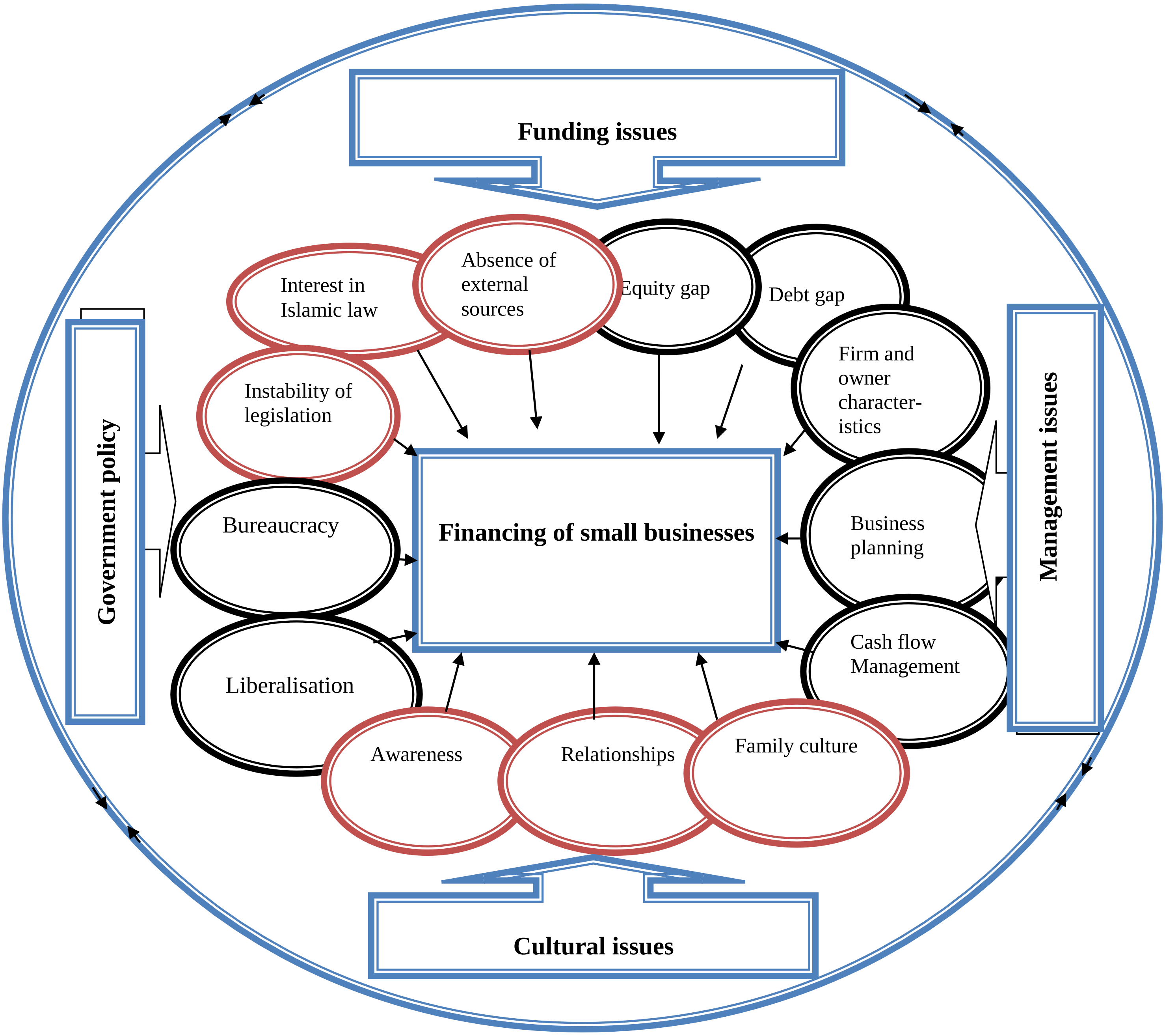
Although it represents the fourth research objective, the conceptual model of key small business financing issues in Libya makes an appropriate starting point for a discussion of the key findings and conclusions. In an exploratory study, it is often unwise or inappropriate to use a specific framework to guide the research, as too little is known about the object of study. However, according to Saunders et al. (2007) a conceptual framework can be a valuable outcome of such research. The conceptual framework introduced here has accordingly been developed to summarise the key findings that emerged from this research.

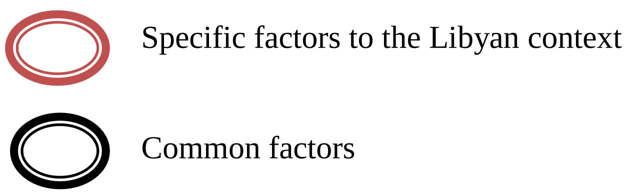
This model introduces four sets of issues that impact on the financing of small firms in Libya:

- Funding issues
- Management issues
- Cultural issues
- Government policy

The model is depicted below:

Figure 28: Conceptual Framework: factors affecting the financing of Libyan small businesses





Visual inspection of the above framework suggests that there are multiple variables that affect the financing of small firms in Libya and moreover that these are frequently negative in impact, representing obstacles to financing, growth and economic development. These four sets of issues (Funding, Management, Cultural and Government Policy) are now discussed in turn.

6.4 Funding issues

The findings of this study show that small businesses in Libya rely heavily on internal sources of finance. These sources of finance are mainly based on personal savings, retained earnings, family, friends and partnerships. These types of funding play an important role in starting up or expanding businesses.

Personal savings, family and friends:

Findings show that personal savings and family are extensively used to establish businesses in Libya. This emphasis on such sources might reflect the complexity and difficulties of obtaining external sources of finance (see Beck et al. 2008a). It is not surprising that the owners of small businesses were dependent on their savings and families to start-up or expand their businesses. The findings show that small businesses face difficulties in accessing other sources of funding, such as external debt and equity funding. This is because small businesses, particularly in the start-up stage, have limited access to external sources and face more difficulties in obtaining finance than large firms, due to lack of guarantees and financial information (Bhaird & Lucey, 2009; Storey, 1994; Roper 1999; Al Kharusi, 2003).

Findings in the previous chapter show that partnerships were one of the main sources of funding used to establish and expand small businesses in Libya. Participants who were unable to raise capital from their family turn predominantly to their friends for funding to establish a new business or expand their existing business. The use of friends or other informal sources of capital to fund quick transactions also seems to be prevalent among traders, particularly those working in the wholesale trade sector. It is notable that the lack of external sources of funding, strong Islamic society and family ties are widely contributed to encourage owners of small businesses in the sample to use their personal savings, family and friends in the start-up stage.

Retained earnings

Retained earnings are one of the main sources used to expand small businesses in Libya. These findings are in line with the findings of Bozkaya and Potterie (2008). They studied 103 Belgian small businesses in terms of availability of capital in the start-up period. They found that 82 percent of small businesses used internal financing in the early stage. They also found that family and friends played a main role in all consecutive development stages. Libyan small businesses are similar in this respect.

Trade credit

The research shows that this type of finance was one of the main important sources used to expand small businesses in Libya. Participants, particularly in the trade and manufacturing sectors, were heavily dependent on this method to expand their businesses. Findings show that the majority of the Libyan traders and some owners of factories have established good relationships with foreign companies and have become distributors for their products in the Libyan market. Traders in Libya, particularly those working in the wholesale sector, experienced wider growth due to the use of the trade credit method, and their businesses became less likely to encounter cash flow problems. Rodriguez (2006) in his study of the Canary Islands found that the trade credit method was able to offer many services for small businesses such as liquidity and risk distribution. Owner-managers of small businesses in Libya who make use of trade credit can typically expect a repayment period of between two and twelve months. However, the extensive use of this method might reflect the fact that the Libyan small businesses preferred to use informal sources when they face difficulties accessing formal ones. The informality of this source of funding suits the personal nature trade in Libya. It is also directly linked tangible sales function. Yang and Blenman (2008) supported these findings and suggested that, when firms face cash flow problems and difficulties in obtaining funds from formal external sources, they tend to use trade credit to solve their problems. Although traders in Libya use trade credit as a short-term source to fund their businesses, this source of funding is often insufficient for growth of their businesses and therefore they need alternative sources of funding.

Small businesses often have difficulty in obtaining the necessary financial resources to effectively expand/grow their businesses. Libya, like other developing countries, has a weak equity and debt culture and access to traditional growth capital. Most small businesses in Libya are run as partnerships thus limiting the development of equity funding. Debt and equity capital for small businesses is often unavailable or difficult to obtain but even where it is available in principle; most owner-managers have very low awareness or understanding of it. Even where there is awareness, many Libyan owner-managers have a cautious attitude toward the issue of interest regardless of its rate. However, the emergence of Islamic finance should make a significant difference in eliminating this obstacle (interest). Underlying all this is an even more fundamental issue that concerns the relevant knowledge and availability of

Islamic funding. It is argued here that not only is Libya an extreme case in the use of trade credit on very extended terms but, when couple with inconsistent and unfavorable government policy, that this is also a very strong destabilizing factor in the Libyan small business sector.

Having discussed the extent of trade credit and the lack of equity funding, debt funding is the other remaining issue.

6.4.1 The debt gap

Findings in this study suggested that there are a number of factors that contributed significantly to an increase in the funding gap between lenders and borrowers. These are:

- *The lack of knowledge and awareness of bank funding among small business owner-managers:* across the sample, there was a striking lack of experience, knowledge and understanding of the availability, applicability, cost and workings of bank funding. This was compounded by the absence of advertisements about the availability of funding. If bank funding was available it has not been communicated to potential borrowers.
- *Centralised control, bureaucracy and inflexibility:* there was strong evidence that tight central control and rigid, bureaucratic decision-making rules and structures contributed to over-long decision processes on bank lending and deterred potential borrowers. Owner-managers reported that banks took a long time to consider their loan applications, sometimes waiting from six months to a year to get approval from the bank's central management to obtain a loan from the branches, only for the request to be rejected. Managers of lending also

confirmed this claim, and when they were asked about the reasons for this, they answered that this was the policy of the bank.

- *High guarantees and interest required:* a number of participants complained about the size of the guarantee required from small businesses to obtain loans from the bank and of increases in this requirement. (The research showed that the guarantee was at least 125% of the loan, and also an owner's contribution of at least 25% of assets; these terms were confirmed by the lending managers interviewed). Managers of lending, when asked why the proportions of the guarantee and interest on their loans were high, responded that small businesses are a closed sector, less information is available about this sector, and the average of the risk is too high. This result is in conformance with the findings of Bell (2005) when he mentioned that the lenders depend on two factors when they make lending decisions: first they depend on the availability of the money and, second, they scrutinise the average level of risk that may be involved.
- *The lack of alternative debt funding sources, including Islamic finance:* the research suggested that a significant proportion of owner-managers would prefer to make use of Islamic funding methods. At present, the absence of such Islamic and foreign banks enables the existing banks to control the debt funding sources in Libya. Dietsch (2003) noted that establishing relationship banking with a single creditor may contribute to a captivity problem and, therefore, establishing relationships with multiple banks may reduce credit constraints.
- *Information asymmetry:* the research findings revealed a huge gap between small businesses and banks in terms of expectations and mutual understanding.

Owners of small businesses complained about the amount of documents that are required to obtain a short-term loan from the banks, while lending managers frequently commented on the poor quality of financial information provided by small businesses. The effect of this was to increase bankers' perceived risk of lending and caution in lending, saying that they could not lend to all borrowers, so they only selected businesses that they felt 100% sure would be a success.

6.4.2 The equity gap

The equity gap problem is widely considered one of the main obstacles facing the growth of businesses in different countries worldwide. Since the Macmillan Committee first identified an equity gap for small businesses in the UK in 1931, numerous researchers that have confirmed its persistence (Bolton, 1971; Wilson, 1979; Storey, 1994; Mason & Harrison, 1998; Gualandri & Venturelli, 2007; Bannier & Grote, 2008).

In this study, the findings have illustrated that small businesses in Libya also face problems in raising equity capital, due to government policy and also due to small businesses themselves. The Libyan financial market is relatively small and is dependent on just the banking sector and a number of insurance companies. The Libyan stock market has been recently established and only lists a small number of large companies. It is reasonable to say that Libyan small businesses suffer from a lack of external sources of equity finance. *The absence of venture capital institutions* contributes to the equity gap in the Libyan financial market, while in some countries formal and informal venture capital is considered one of the main sources of equity funding for small businesses (Repullo & Suarez, 2003). Findings in this study show that the absence of venture capital institutions is widely contributed to increase the equity gap in the Libyan financial market.

Findings in this study show that several participants anyway preferred to avoid using external sources of funding, whether debt or equity, because they believe that the demands and rights of the investor or lender will limit their personal control of their business. Nevertheless, in some circumstances, participants, particularly those working in the trade sector, have used informal, short-term venture capital to fund some quick transactions. This method is used because it seems (from the sample) that it suits the strong personal nature of Libyan small businesses. However, of the research respondents had little awareness of the possibility of external equity funding, and it is arguable to conclude that the *culture* of equity funding is absent or undeveloped in Libya.

6.4.3 Interest within Islamic law

A substantial number of the sample owner-managers said that they would prefer to deal with Islamic banks rather than the existing banks, if they had the opportunity, several participants felt unable to borrow from existing banks, because interest is prohibited in Islam. The absence of Islamic banking in the Libyan market has therefore contributed to an increase in the funding gap. In addition, the absence of such banks in countries like Libya might be surprising, since it is considered an Islamic nation state and a large number of banks in Islamic countries offer Islamic finance methods to their customers. Lending managers in the main banks in Libya attributed this absence to government policy. They thought that, because of the strong Islamic culture in Libya, the government would not allow Islamic banks to invest in Libya, as they would provide powerful competition to the existing banks. It would be interesting to determine the reasons for this. It may be that the absent of this route gave it a grater desireability. It may be that method (Mudaraba) allowed funding with loner amount of regulation. One of the developments of this research would be to explore this issue.

6.4.4 Lack of financial information

Financial information is very important for lenders. Many studies in the UK and elsewhere pointed out that financial information provides essential facts needed to increase funding for small businesses (Carsberg et al., 1985; Collis & Jarvis, 2002, 2003; Cosh et al., 2008). Findings in this study show that only three owner-managers out of the sample of twenty-seven prepared financial statements. Bates and Hally (1982) noted that the problem of the lack of financial information is related to the owners of the business themselves, because they do not constantly react immediately to information, and also they do not seek suitable advice until after the problem happens. Managers of lending in the main banks complained about the lack of information from small businesses. A lack of information is considered as the main reason why many small businesses fail to fulfil the requirements set up by the financing institutions. Lending managers mentioned that, due to lack of information, they could not differentiate between high-quality businesses and low-quality businesses.

Financial information also is considered one of key factors in business planning, cash flow management and financial decision-making. The findings of the study show that a lack of financial management and financial experience is characteristic of the owners of small businesses in Libya. Whilst business planning and cash flow management are considered the main factors in business success, the vast majority of the participants were unable to manage the financial information of their businesses. Most participants only used their bank statement to make financial decisions. The findings of the study also show that financial statements were almost absent. Owners of small business faced difficulties preparing business planning, cash flow forecast and financial records due to their lack of experience and level of education.

On the basis of the evidence of the sample, secondary research and the literature review, it is difficult to argue that Libya is unique in this respect. However, at least among the countries of North Africa (see Schwab, 2010), it is arguable that Libya is especially disadvantaged as a result of the very long period of prohibition of enterprise and lack of business education and training.

6.4.5 Libya's under-developed financial services sector and institutions

Banking sector

Whilst neighboring countries such as Tunisia and Egypt have achieved advanced steps in terms of banking services, the Libyan banking sector is still weak and unable to provide even basic services. Although a number of steps have been taken by the Central Bank of Libya and the government in order to reform the banking sector, the findings of this study show that the Libyan banking sector is still under the control of the government and the Central Bank of Libya (see 2.7.1). There is a perception amongst the sample in this study that business information may be summarily accessed for the purposes of taxation. Libyan banking services are still complicated and use outdated systems in their operation. For example, to transfer money from one city to another inside Libya, a customer has to wait fifteen days or more. As discussed elsewhere, owner-managers of small businesses face more difficulties when trying to deal with banks. Family networks and personal relationships widely affect the banking sector. The absent of competition in the Libyan financial sector, particularly in the banking sector, has significantly contributed to an increase in the financial gap between small businesses and banks. The findings of the study show that owners of small businesses were unable to easily access bank services without having a personal relationship with the bank. Thus in Libya the personal nature of being in business was further strengthened.

Stock market

Although the Libyan government has taken a number of steps to enhance the financial sector, and has become more interested in making the financial sector more effective, the stock market in Libya was only established in 2006, and it is only for large companies, while the Libyan small business sector suffers from a lack of external finance sources such as equity funding. The findings of the study show that owners of small businesses had a very low level of awareness about equity funding and stock market operations. It is reasonable to suggest that this not only has a major impact on the availability of external equity funding but on long-term business planning in terms of the funding of acquisitions and of harvesting.

Venture capital

Whilst venture capital is one of the most important sources of small business growth funding (see 3.4.3.2), the findings of the study show that venture capital funding is not widespread in the Libyan financial market. Lack of awareness and knowledge about venture capital funding is increasing the financial gap in the small business field. Furthermore, the absence of venture capital institutions has also significantly contributed to an increase in the equity gap in the Libyan financial market.

However, in spite of all steps that have been taken by the Libyan government to support and develop the financial sector, small businesses still face difficulties in accessing funding and financial services. The Libyan financial sector is still weak and unable to provide even simple facilities to their customer compared with neighbouring countries. For example, the Global Competitive report (2010-2011) classified Tunisia 42nd out of 139 countries in terms of its availability of financial services, whereas the same report classified Libya 136th. While Islamic banks operate in the majority of Islamic and non-Islamic countries, there are currently no Islamic banks in the Libyan financial sector. Islamic banks can contribute widely to narrowing the funding gap in the small business sector; because as mentioned earlier in the literature review, the Islamic religion is unarguably a very major factor in the social system of Libya (see 2.6). The findings show that most participants in the study complained about the absence of Islamic banks in Libya. Many of them avoided borrowing from existing banks due to the interest banks charge on loans. (As mentioned in the literature review, interest is forbidden by Islamic law – see 3.4.3.3). Interest remains one of the main obstacles to small business funding, despite the government allowing banks to establish Islamic finance departments, because foreign Islamic banks are still absent from the Libyan market, and the departments in existing banks need more time to understand how to deal with this aspect of finance. Furthermore, senior managers of lending in the main banks complained about the lack of small businesses credibility and guarantees. It is therefore reasonable to suggest that Libya is not only a special case in that its government has debarred Islamic banks from operating in the country, but that this has negatively affected the growth and development of the Libyan small business sector.

These findings above were combatable with the The Global Competitiveness Report which was published in 2010-2011. This report ranked Libya as the last country (139) in terms of affordability of financial services. It also ranked Libya 136, 135, 134, 122, 116, 87 and 55 in availability of financial services, regulation of securities exchanges, restriction on capital flows, financing through local equity market, soundness of banks, ease of access to loans and venture capital availability respectively. This report also studied a number of neighbouring countries such as Tunisia. Therefore, it is reasonable here to compare the situation of Libya with Tunisia in terms of financial market development. The purpose of this comparative study is to provide a fuller evaluation and deeper understanding of the Libyan financial market. Table 22 summarises the development of the financial market in Libya and Tunisia, according to Global Competitiveness Report.

Table 22: International ranking of the financial markets in Libya and Tunisia

	Criterion	Libyan rank	Tunisian rank
1	Affordability of financial services	139	31
2	availability of financial services	136	42
3	regulation of securities exchanges	135	38
4	restriction on capital flows	134	88
5	financing through local equity market	122	25
6	soundness of banks	116	59
7	ease of access to loans	87	30
8	venture capital availability	55	21

Source: Schwab (2010-2011)

Table 22 above illustrates the extent to which the Libyan financial market is weak and undeveloped compared with the Tunisian financial market.

6.5 Management issues

The purpose of this section is to conclude the important findings that emerged from the previous chapter, some of which are related to issues of management. These issues are: owner-manager characteristics, characteristics of the business, cash flow management and business planning.

6.5.1 Owner-manager characteristics

A large number of small business owners of the sample do not have the know-how to meet the business requirements set by banks to get bank loans and other forms of external financing. Problems in accessing financing for small businesses cannot be blamed entirely upon the conservative attitude displayed by financial institutions. This is because, even if the requirements of banks are dismissed, the small business owners lack basic financial administration and regulation know-how to successfully run their businesses. The major constraints facing small businesses in Libya are education, lack of experience and lack of awareness and accessibility to information on local market policies and business regulations. Their business relationships are heavily dependent on personal relationships and the use of wasta. The use of information to manage the business is 'very' low.

6.5.2 Characteristics of the business

Small businesses in developing countries tend to rely heavily on internal funds and funds from informal parties such as savings and loans from family and friends, especially at start-up phases of their businesses. The attractiveness of a firm to financial institutions varies with the size of the firm, maturity of the business, type of industry that the firm operates within and so on. As mentioned above, the difficulties in accessing financing for small firms cannot be blamed entirely upon the conservative attitude shown by banks. This is because small businesses are often unable to approach banks and investment funds in an effective way. They are not always able to prepare business plans of acceptable quality, or to defend them credibly vis-à-vis potential financiers.

6.5.3 Cash flow management

One of the obstacles facing growth of small businesses in Libya is cash flow management, particularly in the trade and manufacturing sectors. Thus, there were a number of factors contributing to increased cash flow problems, which are:

- Lack of management accounting knowledge: this study shows that a small number of participants have a high level of education and management accounting experience. Merritt (1998) and Petts et al. (1998) supported this view and pointed out that the availability of education and experience of management can create a positive effect on business. Most of the respondents were depending on an external accountant for their accounting services. Others, particularly those who have little accounting experience, were prepared to keep informal records. Only three respondents were able to prepare a financial statement and cash flow forecasts. Owner-managers with a high level of education were more likely to work with a business plan. Others, when asked why they did not deal with accountants, responded that their budget is not large enough to cope with any additional expenditure. Therefore, it would appear to be unsurprising, that lending managers in the banks would express their concern regarding the lack of information supplied by Libyan small businesses when applying for funds. The lack of information, particularly financial information, makes banks reluctant to lend to small businesses as they are uncertain that businesses will be able to repay their loan (see Abor & Biekpe, 2006 and Lean and Tucker, 2001).

- *Instability of government decisions*: a number of respondents attributed cash flow problems to the Libyan government. Respondents complained about the instability of legislation. They were concerned about the unpredictable government decisions, and also they were unable to prepare cash flow forecasts, because they were unable to build expectations about government decisions.
- *Increased expectation of credit sales:* this is one of the most important reasons for cash flow problems, particularly in the wholesale and manufacturing sectors. Some of the owners of small businesses claimed that the increase in the amount of credit sales was considered as an index for the health of the Libyan market and their businesses. This claim might be true if they had enough capital, and also if they were working in a regular market. However world financial crises and irregular markets such as the Libyan market and a lack of liquidity have put these businesses at risk. Other respondents have complained about this problem, and commented that the credit sales method has become compulsory and common in the Libyan market. They added that, if they rejected using this method of sales, they would not be able to sell their goods and their customers would move to other traders who would accept this method.

6.5.4 Business planning

In spite of the fact that a business plan is considered as an important factor in the development and growth of small businesses (Kuratko & Hodgetts, 2004), in this study only one respondent was preparing a business plan and was updating it on a yearly basis. This finding is in the same line with the results found by Woods and Joyce (2003), when they noted that there were few small businesses using business-planning strategies in their business. However, findings of this study illustrate that there were some reasons that uniquely constrained owners of small business in Libya from preparing a business plan for their businesses. These are:

- *Lack of experience and level of education*: as mentioned earlier, a number of owners of small businesses have a low level of education and experience, particularly in terms of management and accounting. A few respondents were able to prepare financial statements and had formal records for their business. Some of them have a lack of awareness of the importance role a business plan plays in running and developing their businesses. Moreover, they thought that a business plan was only required when applying for a loan from a bank.
- *The government policy and the Libyan market:* the instability of the legislation of the government created uncertainty in the Libyan market. Owners of businesses also complained about the bureaucracy of the government and thought it was one of the main obstacles facing the potential growth of their businesses. Several respondents attributed the absence of a business plan to government decisions. They added that there is no fixed legislation; therefore they could not build expectations about the Libyan market.

6.6 Cultural issues

Culture and religion play a vital role in the Libyan economic market. Tribes and families in Libya have strong social ties; however, culture and religion widely affect the Libyan economic environment (Twati, 2006). Findings show that the Libyan people tend to have strong cultural ties and those families established the vast majority of small businesses in Libya. The findings show that a number of participants preferred to work with their family, but others preferred to limit dependence on their families. In addition, some participants preferred the partnership method to establish businesses and others preferred to stay away from this method of funding. The following section presents the findings that relate to the Libyan people's cultural issues, such as family culture and relationships.

6.6.1 Family culture

As mentioned earlier, families play a main role in establishing small businesses in Libya. The findings show that family funding or assistance from family members helped to establish the majority of the small businesses in the sample. The findings also illustrated that family culture has an effect on the success of many businesses in Libya. Most families seek to expand and make their businesses grow. Therefore, the findings show that Libyan families were keen to establish new businesses or expand their existing businesses when the size of the family increases, because they feel a strong need to provide for their family members (Obeidi, 1996). In addition, owner-managers were widely concerned with their families' reputation in the market, and they were also seeking to keep their work within the Islamic law. Families in Libya often seek to support their members to establish new businesses and also to own separate businesses within the context of the family. This attitude is more prevalent in families with some resources at their disposal. Family culture in Libya affects all aspects of business life. Many small businesses are established and financed by families, and reputation and religion are very important factors in Libyan family networks and social relationships in the market. Small businesses endeavour to avoid using debt funding, because they seek to keep the family's reputation, and its personal guarantees, out of harm's way (Sonnenfeld and Spence, 1989). Therefore, when more funds are required, business owners tend to borrow from relatives or use a partnership method rather than borrowing money from bank. Therefore, it is reasonable to suggest that the strong family culture in Libya contributes to a rejection of the use of interest-charging loans from the banking system and also to the use of other sources of funding such as the partnership method, which has negatively affected the development of their businesses

6.6.2 Relationships

The establishment of a good relationship between lenders and borrowers is considered one of the key factors in terms of narrowing the funding gap. In many countries, competition in the banking sector often positively affects its relationship with borrowers. Banks in developed and some developing countries seek to stimulate their clients and offer them good facilities. High quality customer service and qualified managers and workers are characteristics of the banking sector in most liberal economies.

However, the case of Libya might be different. The findings of this study show that both government and the central bank tightly control the banking sector in Libya, where competition is almost absent. A lack of experience and qualified workers has a negative effect on daily dealings with customers. The banking sector in Libya still only provides traditional retail services and limited credit facilities. The relationship between small businesses and banks is strongly dependent on personal relationships and family ties. Findings show that personal relationships and 'wasta' are highly important in the relationship between banks and small businesses. A lack of transparent relationships contributes widely to the increase in the gap between small businesses and banks.

Some of these issues may well be shared with other developing economies and, more specifically, with other countries in the Arab world. However, it is suggested here that the combination of long-term and tight central control of the economy, the institutional immaturity of the financial services sector and the strength of family and tribal ties make Libya and extreme case in terms of the relationships between small businesses and banks.

6.7 Government policy issues

Access to financing is heavily influenced by existing conditions in the environment in which financial institutions and small businesses operate. Government plays a critical role in creating a climate (an environment) that can lead to facilitate finance for small businesses and also can govern and lead the way within which financial institutions and businesses can interact to create this environment. The government in Libya is not playing its role in providing the environment (facilities) that drives economic development and activities to encourage both banks and small business to work together and contribute to the economic growth of Libya. In addition, factors such as insufficient legal and regulatory policies and inadequate financial markets are other factors that create several difficulties and confront small businesses from using external funds to finance their operations.

While the Libyan government seeks to be more open to the world, which would allow for the private sector to emerge in the Libyan market, owners of small businesses in Libya have suffered from the policies of the government, when too much bureaucracy was applied. This section is designed to conclude findings that relate to government policies, bureaucracy and liberalisation.

6.7.1 The government policies

The majority of participants in this study complained about the policies of the government regarding small businesses. A lack of realism in the decisions of the government has affected the growth of their businesses. In the eyes of respondents, the random decisions of the government are considered to have constrained the growth of the Libyan small businesses. This lack of confidence between owners of small businesses and the government has created a type of constant fear for the investors as they become unable to borrow loans from banks due to a lack of confidence in government decisions. Although the government has recently published a number of decisions, with the objective of fixing the Libyan economy and making it more open and active, several owners of small businesses in the manufacturing sector were unable to survive due to these decisions.

Interviews show that the banking sector was unable to lend to small businesses due to a lack of loan guarantees. The lending managers mentioned that there was no support from the government for small businesses and that there were only some limited guarantees for construction companies that were working on government contracts. Participants in this study were not able to plan for their businesses due to the unpredictability of these government decisions, and because of this also they were also unable to forecast the cash flow in their businesses. Participants also complained about the lack of support by the government for their sector. Therefore, it is reasonable to suggest here that lack of Libyan government support to the small business sector and unpredictability of its decisions widely constrained the growth and development of small businesses in Libya.

6.7.2 Too much bureaucracy

Findings show that small businesses in Libya might also be constrained by the *bureaucracy of the institutions*. The centralisation, the huge amount of documents, and the lengthy procedures were the character of the majority of the institutions in Libya. Participants complained about the procedures of the banks; the majority of them thought that bureaucracy was one of the main obstacles facing the growth of their businesses.

Some participants, who took loans from banks, mentioned that they waited more than a year to get their loans. They mentioned also that it took a huge amount of documents. Lending managers, when asked about the reasons for these procedures, mentioned that approval was required from two or three main managers in the bank.

Small businesses in Libya also faced difficulties in obtaining government licences. They faced complex procedures, because a huge amount of documentation was required to get a licence from the government. These conditions certainly illustrated to what extent small businesses were constrained due to the bureaucracy of the institutions in Libya. The centralisation in the banking sector controlled all branches, and they were unable to make any long-term lending decisions without approval from the main management.

6.7.3 Liberalisation

As mentioned in the previous chapters, the Libyan government has recently decided to move a substantial proportion of the economy from public to private ownership. This government decision came from a desire from the state to be more liberal and more open to the world economy. This decision seems to be a step in the right direction for small businesses to become more active and to grow. However, the truth is completely negative for some sectors in Libya such as manufacturing. The steps the government took towards fostering a more open economy to the world seemed to cause problems for this sector, with random and sometimes untimely decisions of the government contributing to increasing problems.

The Libyan government started its program towards privatisation of its industries in the mid 1990s. It started with factories which have low assets and a huge number of employees. Findings show that there were a number of owners working in the manufacturing sector who were unable to survive and others who had already moved or were thinking about moving to a different industry such as the trade sector.

Government control on the private sector continued until the early 1990s, when the government allowed individuals to establish private sector enterprises. Approval for investors was kept under the control of the public sector. For example, the government allowed individuals to work in trading, but it was not allowed for people to import from outside Libya. Only public companies could import goods from outside Libya, and the traders could only buy their requirements from these companies.

The centralization was widely applied in the market, and this situation continued until the mid 1990s, when the government allowed for all people to import from outside Libya without restriction. During the 2000s the government started a policy of privatization and became more liberalized; it introduced decisions to transfer many of small businesses from the public to the private sector. It started with the industrial sector, particularly factories which had a low productivity, low assets and a large number of workers. Only a small number of individuals were permitted to buy these factories, which meant that many of the workers became unemployed and the wealth of those individuals who were able to buy factories increased, and they became rich.

In addition, the Libyan government seeks WTO membership, which requires greater privatization, and more economic liberalization. It must work to develop and train the small business sector until it becomes able to cope with competition from abroad, and encourage them to make partnerships with foreign companies and establish joint ventures in Libya.

However, as mentioned earlier in the review of the literature there is little information available about small business in North Africa in general and about Libya specifically. It was quite difficult to make a comparative study between Libya and its neighbouring countries such as Tunisia in terms of culture, management and policy issues. Therefore, it might be reasonable for the researcher here to use his personal experience to compare some issues between Libya and Tunisia in order to provide a deeper understanding and also to illustrate how what the Libya a context might be unique. Table 22 below summarises these issues.

Table 23: Libyan context compared with Tunisia

Libya	Tunisia
The population of Libya is smaller than all the other states in North Africa (it is about six million people). This has led to its relative unimportance for international development.	Tunisia has a population of more than ten million people.
Policy instability is considered the trait of the Libyan government. It is considered one of the most problematic factors in doing business in Libya (there is no constitution organising the business activities of the country).	Policy in Tunisia is considered more stable than Libya. All business activities are organised under the constitution of the country).
Family and tribe relationships control the business life in the country.	Family and tribe have a limited role in the business life aspects in the country.
Islamic religion is stronger and it has greater social control- for example, alcohol is illegal in Libya, but Islamic banking is not operating in the country.	The Tunisian country is more liberal and it is possible to buy alcohol in some areas of Tunisia. But Islamic banking is operating in the country.
Libyan economy has been more dependent on oil revenue than most North African countries. This has impeded the development of other sectors of the economy.	Tunisian economy has well developed sectors, especially in tourism and manufacturing sectors.
Libyan women are more conservative and religious.	Tunisian women are more open, and there are greater opportunities them to own assets.

6.8 Recommendations of the study

In view of the findings of the study and the contemporary circumstances in Libya, and in the light of the theoretical concepts considered herein, some tentative recommendations may be made in terms of improving the use of finance by the Libyan small business sector, and thereby improving its performance. It is believed that implementing such recommendations would help in reforming the current Libyan business environment within which financial institutions and small businesses operate, which in turn should lead to reducing the financing obstacles facing small businesses.

6.8.1 Recommendations to policy-makers

The method of Islamic funding has seen success in a number of countries, and the owners of businesses in these countries prefer to deal with this method of funding. The Libyan government should learn from these countries and develop strategies to narrow the financing gap that faces small business growth through establishing Islamic banks and also through allow to Islamic banking to operate in Libya. Methods for achieving this are given below.

- The government should investigate the development of Islamic finance tighter with an effective communications strategy for this method.
- The government must work to create competition in the financial sector through allowing foreign institutions to invest in Libya, which can provide more funding offers for businesses.
- The government must work to promote the culture of the equity funding method (such as venture capital institutions) between owners of businesses, and introduce laws that organise and protect venture capital investors.
- Lack of access to external finance is the main problem identified by this study. The government must work together with the financial institutions and banks to narrow the gap between the small business sector and financial institutions in order to help small business grow.
- The government must increase the stability of their policies regarding the economy in order to reduce uncertainty in the business environment. Factors such as stable interest rates, low inflation and streamlined bureaucracy make long-term financial planning a more viable option.

- Lack of education and training are key factors in poor business planning, which in turn lead to an inability to access financing. As mentioned above, the government must promote small businesses through using oil revenue (particularly as Libya is considered one of the richest countries in the Arabic world and North Africa) to develop and support small businesses, and to establishing centres for small business in different cities of the country, in order to provide advisers, training, expertise and capital.

6.8.2 Recommendations for further research

One of the contributions of this research to this field of knowledge is that it opens up a new area of research, the finance of, and investment in, small businesses in Libya. This area is likely to be of interest to researchers and investors, therefore the following are some of the potential areas for future research:

- In this study, due to the constraints of time and modest financial resources, it was impossible to conduct a longitudinal research study or to cover all sectors and cities in the country. Therefore, in spite of the fact that religion, culture and social life do not vary greatly between Libyan cities, other samples from different places in the country would give support and more certainty to this research.
- The findings of this study have identified that the Islamic funding method was absent in the Libyan banking sector. Therefore, a comparison study into the financing of small businesses between Libya and other countries (particularly neighbouring countries such as Tunisia and Egypt, if possible) that use the Islamic funding method in its system would be interesting and useful.

- One of the findings of this study is the extensive use of credit sales; some participants mentioned that this method is becoming common in the Libyan market, and it has contributed to an increase of bad debt. Therefore, an exploratory study into the specific effect of credit sales on the growth of small businesses in Libya would certainly give useful results.
- The findings of this research have illustrated that venture capital institutions are almost absent in the Libyan financial market. Therefore, an exploratory study to investigate the reasons for this and the effect that has on the growth of small businesses in Libya would be an important contribution, particularly when comparisons can be made with other developing countries.
- The research showed that business planning and cash flow management were almost absent in the sample of Libyan small businesses. A focussed study in order to investigate to what extent the absence of cash flow management contributes to small business failure will be useful.
- The research indicated that female-owned business in Libya may face more difficulties and constraints accessing finance and management skills due to culture, religion and family ties. Therefore, an exploratory study to investigate to what extent culture, religion and family ties affect the growth and development of small businesses owned by females in Libya should be conducted.

6.9 Contribution to knowledge

Several studies in the literature stated that there were very limited sources available in the literature concerned with small businesses in developing countries in general and financing small businesses in particular (Al-Kharusi, 2003; Kapoor, 2004; Stephanou & Rodriguez, 2008). More specifically, academic research on financing of small business in the developing world, including North Africa and particularly Libya, remains sparse. As far as the author is aware there are no studies of this type that have been applied to Libyan small businesses in general, and to small manufacturing, trade and service sector businesses in particular. In broad terms, the literature was limited to the understanding of the importance of the positive role that small businesses play in contributing to the economy of the majority of developed countries and some developing countries. It is anticipated that this research will provide a positive contribution into the two following areas:

6.9.1 Contribution to the literature

It is expected that the outcomes of this study will provide a real contribution to the body of knowledge in the following ways:

First of all, it will contribute to the enrichment of understanding of small businesses in a developing country, the lack of knowledge of which previous researchers have mentioned. Secondly, it will contribute specific knowledge concerning the financing of small businesses in Libya to the literature. Thirdly, it will establish a basis for further research into small businesses in Libya and it may be of benefit to other researchers in this area. Finally, it offers a conceptual model of the constraints and difficulties of funding small businesses in Libya. The model has been built upon the idea of interaction between economic, financial and social factors and can be adopted or adapted in further studies, particularly in transforming or developing economies.

6.9.2 Practical benefits to the Libyan government

As mentioned earlier the Libyan government has started to create other alternative sources of revenue to the oil sector. In addition, more recently it has taken steps to reform the Libyan economy in order to make it more effective and liberalised. These steps certainly require more investigation and diagnosis to evaluate the existing situation for many important sectors such as the small business sector. In the last five years the Libyan government has become concerned with this sector. In 2006, it established an organisation that focuses on the small and medium enterprises sector, and in 2009 it introduced legislation (number 472), which focuses on this sector.

As stated in chapter one, the main aim of this study is to explore the funding of Libyan small businesses in terms of sources, attitudes, uses and constraints, and to make tentative policy recommendations. This research has specifically added an understanding to the way that small Libyan companies finance themselves and the barriers they face in obtaining finance from banks. It is believed that this research will contribute to raising the awareness of the Libyan government and banks to the importance of financing small businesses and provide further insights into the understanding of the obstacles facing small businesses in raising finance. The findings of this study will give the Libyan government real value in terms of evaluation of the situation of this sector. Another contribution of this study is to make tentative policy recommendations, which will certainly be useful for the Libyan government. Also this research is likely to help the small organisations' banking sector and managers obtain better understanding of issues and constraints surrounding the financing of small businesses.

6.10 Limitations of the study

Any research has some inherent limitations and this section is designed to discuss the limitations related to this study. The first part of the discussion considers the limitations related to the generalisability of the research findings as representative of small businesses within Libya. The second part of on the discussion considers the limitations of generalisation to other country contexts.

The sample included twenty-seven owner-managers of Libyan small businesses, selected from the population of two cities in Libya: Tripoli, the capital city, where the small business sector is the largest and most diverse, and Misurata, considered the main city of trade and industry. In addition, the sample included three main sectors of the country's economy (except for the oil sector): trade, manufacturing and services. Clearly, it is dangerous to generalise from this sample to the small business population of Libya as a whole, in the absence of in-depth knowledge of the broader population.

While this is true, a number of factors should be considered in support of a degree of cautious generalisation. Firstly, it can be said that there is some scope to generalise the findings of this study geographically to other cities and regions within the country. Although Libya is a large country, with a surface area larger than that of Germany, Holland and France combined; ninety percent of its area is classified as desert, and most of the population live in the cities along the Mediterranean coast, and there are few significant differences between them in terms of demographic, political, religious, economic, social and cultural issues. Secondly, the sample was constructed to capture several dimensions of diversity, including sector, age, education level and gender. Thirdly, even within the relatively small sample, clear patterns of responses emerged concerning, for example, sources of finances at start-up, the role of family, attitudes to bank lending and views concerning government policy. Fourthly, the interviews with bank lending managers provided very valuable triangulation, not only providing a different perspective but also confirming and enriching the views of the owner-managers interviewed.

A broader question is whether the findings could be generalised to any degree beyond Libya. On the one hand, Arab countries, particularly those located in North Africa, have many similarities with Libya in terms of language, culture, religion, and social life. Furthermore, there are many areas of interaction and relationship between Libya and people in the neighbouring countries in terms of social relationships, migration, cross-border trade and economic interdependence. Although some researchers pursuing studies in other countries may find some useful findings from this study, or be able to use similar techniques, generalisation of the findings of this study is difficult because of cultural issues. Berrien (1967) mentioned that the comparability of research instruments is perhaps one of the most subtle, challenging, and interesting methodological problems in cross-cultural research. The same author added that the particular behaviours identified in one culture may not be equal to those in another. Therefore, due to these cultural issues it is difficult to generalise the findings of this research to other samples from other cultures across the world.

It is true that the neighbouring countries of Algeria, Tunisia and Egypt have much in common with Libya in terms of culture and also in some aspects of their economies. However, even then generalisation to these country contexts should be treated with caution, as there are still major cultural differences, great differences in recent political and economic history and in the structure of their economies, with less dependence on oil.

In spite of these limitations, however, this research provides a real contribution to the literature through its findings that have significant implications for the small business sector in Libya. In addition, this research is considered an important source for further research in the Libyan context and the researcher hopes that it will be a platform for further research, particularly in the Libyan context.

6.11 Personal reflection

For me, this doctoral thesis is an outcome of more than three years of continuous hard work. In fact, this thesis is a reflection on how I was, how and what I became, and how I will be in the future. I think that my cultural and academic background, besides my eighteen years practical experience, had a great influence on my actions when analysing and solving problems. However, I can say that what I learned and gained, in terms of academic experience in my doctoral study, was unique and encouraged me to go to any length in academic research and the development of knowledge.

This section gives me the chance as a researcher to demonstrate the enormous benefit gained from my doctoral study, which is divided into two parts. The first part is designed as a reflection on the subject of the study, while the second is concerned with reflecting on the experience gathered from undertaking the study.

6.11.1 Reflection upon the study subject

I started my first job as an accountant in a medium-sized firm after I gained my Bachelor's degree from university. My work was in the department of budgets in this company and I worked as an accountant for about three years. In 1996 I received an offer from the Al-Wahda Bank to work with them. I decided to join the banking sector, and due to my experience and qualifications I became assistant manager at the Al-Wahda Bank, Misurata branch. In this position, and because of this responsibility, I was close to our main management, and I was informed about any decisions made, either by the government or by the central bank of Libya, regarding loans, credit or banking transactions. Furthermore, I had good relationships with many friends and people who became clients of the bank’s branch.

Through my work in the Al-Wahda Bank I gained good experience in the field of IT. I learned also that the client is always correct; this is not only a slogan. I also learnt that every matter related to loans was carried out only by the senior management. The branches of the banks were only for simple procedures, and also I noticed that there were many problems and barriers facing the owners of small businesses when dealing with the banks, especially regarding obtaining loans.

At the end of 2003, I presented my Masters degree, and my topic was related to evaluating the performance of industrial firms, through the use of financial and economic standards. I found many financial problems facing the performance of those firms. In mid 2004, I decided to move to an academic career and started my work at the University of Misurata. My new academic career gave me a chance to keep my focus on the performance of Libyan firms through the supervision of some undergraduate students until I had the opportunity to do a PhD degree in the UK. This opportunity encouraged me to explore the financing of small businesses in the Libyan environment, in terms of uses, attitudes, sources and constraints, especially since, as I said earlier, the Libyan government did not pay much attention to the small business sector. Interestingly, it has recently started to privatise many public firms, and has encouraged the economy to be more liberal.

I think it was a good choice when I decided to study the topic of small businesses' financing in Libya with respect to the availability of financial resources, their use and barriers they face in raising finance. It became particularly pertinent given that the Libyan government has finally and recently begun to support these firms after realising their role in support of the economy and the creation of new employment opportunities, whereupon the study and research scope has since expanded in these sectors.

The outcome of this long journey was the results that I reached and the recommendations I have made, which I think will be useful to many researchers, to the Libyan government, to investors and too many entities that intend to obtain more information about the reality of operating small businesses in Libya. I found it especially illuminating and useful to use a qualitative methodology based on in-depth interviews, unlike most other studies of small business finance in developing countries. In my view, the data that I was able to collect and discuss provide a very rich picture of the experience of small business owner-managers in Libya with respect to financing their businesses. It was very useful be able to interview a sample of lending managers in addition to the owner-managers. This provided a sort of triangulation of my findings and was especially interesting to me as I was formerly in position myself.

6.11.2 Reflection upon the experience of undertaking the study

During the first phase of the study I joined the students of the accounting and finance department at Gloucestershire University to study research methodology. This class was designed for PhD students and continued for around one year, on average with a weekly lecture. It was very interesting and I can say it added a lot of important information to my experience and my knowledge about research methodology through the discussion of many topics whether with supervisors or with the PhD students.

During the first year also there was a programme prepared by the university for the doctoral students, regarding the preparation of PhD theses. Its lecturers were highly qualified and gave me a full understanding about the steps of the preparation of the thesis. In addition, it taught us how to deal with problems and barriers that might face students. There were also English language courses provided by the university for non-native PhD students throughout the period of study. They had a great influence in improving our language level and those lectures had a very effective role in increasing my knowledge.

The monthly meeting our supervisor established for his doctoral students was also one of the real opportunities I had to discuss my research, and it gave us an opportunity to discuss many problems related to the theses and research methodology such as research philosophy, quantitative and qualitative research methods, thesis structure and many other important issues. This meeting also was a chance to get to know a number of new friends and discuss our topics and the problems that face students during their study, which again gave me more information, skills and experience.

Throughout this study, which has been a journey of more than three years, I can say I have acquired a great deal of knowledge, either from lectures or through participation in many meetings with the supervisors and students. The scope of the study was both wide and well designed by the university. All facilities were available for the students to gain more knowledge and learn the techniques necessary for doctoral research, some of which were not available to me during my previous study phases. The support from the university and the supervisors were like gifts for students to gain more skills and research experience. Conferences, meetings and seminars were held with the purpose of gaining more information and skills, such as the conferences held in the University of Gloucestershire for doctoral students in March 2009 and May 2010, and in the Isle of Man International Business School in July 2010, at which many students demonstrated their studies and researches. In these conferences, I participated with papers addressed ‘How are small businesses in Libya financed?’ and ‘Financing of small business in the Libyan economic environment’. The results of these papers were that the majority of Libyan small businesses depend on internal financial resources such as family and personal savings both in the start-up and the expanding period. It also found that the small business sector in Libya faces a number of problems, such as the lack of financial sources and they were dependent on external sources of funding, which are bank loans and trade credit. I was also one of the participants in the first Libyan students' conference, which was organised for the Libyan students in the UK. It was held in Nottingham in December 2008, under the supervision of the Cultural Affairs Bureau in the Libyan Embassy in the UK. I participated by providing a poster entitled 'Financing of small businesses in the Libyan economic environment', and it was a very important participation, because it gave me chance to explore the importance of this study, particularly in a country like Libya seeking to reform and improve its economic and financial sector.

Finally, I must say that I have learned a great deal and many important things during this phase of my study. It will remain a huge motivation for me to do more studies and research and I thank, each time I do so, my supervisors and Gloucestershire University for that.

Thank you for everything.

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Appendices

Appendices 1 Interviews with the owner-managers of small business

Appendix 1.1 Letter to participants – owner managers

Dear……………..

My name is Mukhtar Eltaweel. I am sponsored by the Libyan government to study for a PhD in the UK. My topic title is ***financing of small businesses in the Libyan economic environment.*** As we know, the vast majority of businesses in the world's economies can be defined as small enterprises. Small businesses have a significant importance in developed countries as in developing countries.

Small businesses face more diverse problems than large companies. One of these problems is that of finance.

This study will explore the financing of small businesses in the Libyan environment in terms of uses, attitudes, sources and constraints. Therefore, you have been selected as one of the participants in this study, and your participation will be very important for me to finish my study.

All information you give us will be totally confidential. You will notice that your name and address do not appear on the sheet, and a copy from the final findings will be sent to you if you wish.

If you have any questions you wish to ask, please do not hesitate.

Thank you for your cooperation

Appendix 1.2 some closed questions

These are some questions regarding general information about yourself and your small business (Please tick or fill the appropriate column)

1- Your sex

Male...........

Female........

2. Your age (in years)

Less than 25.....

25 -29...........

30 - 35..........

36 - 40..........

41- 45............

46 – 50...........

Above 50.......

3. Your qualification

Non graduate...........

Diploma......................

University graduate...

4. Your small business experience

Less than 5 years

5- 9 years...........

10 - 14 years........

15 - 19 years........

20 and more years................

5. Your experience as a managerial position in the small business

Less than 5 years...............

5- 9 years.........

10 - 14years.......

15 - 19 years........

20 and more years...............

6. On a scale of 1-5 what are the reasons for not applying for external finance?

1=strongly disagree 2=disagree 3=uncertain 4=agree 5=strongly agree

a- External finance is too costly	1	2	3	4	5
b- External finance is not required at the moment.	1	2	3	4	5
c- External finance is too risky	1	2	3	4	5

d- External finance is too difficult to obtain	1	2	3	4	5
e- Do not want to lose control and independence	1	2	3	4	5
f- Do not like to be in debt	1	2	3	4	5
g- Interest is forbidden by Islam	1	2	3	4	5
h- Other reason (please specify)	1	2	3	4	5

....

Appendix 1.3 owner-managers interview guide

(*Preamble*: I think a good place to begin is for you to tell us a little bit about your business, how and when you started, what kinds of things you are doing, and what your responsibilities are within the business.)

- When did you start your business?
- Can you tell me a little bit about your business? What are your main activities?
- How many people do you employ?
- How has your business evolved since the time you founded it?
- Could you please tell me what was the source of capital at the beginning of your business, and how was your business financed?
- Could you please tell me how you started your business, and from where you took advice or information?
- Has the business grown over the last 2-3 years? What has been your biggest period of growth until now?
- What was the source of expanding business in the last period?

- What was the problem of access to capital?

- How do you manage your business, is there any plan prepared to help you?

- Do you currently operate your business from a business or personal bank account (or both)?

- Could you please tell me is there an accounting system used in your small business?

- How do you manage cash flow in your business?

- Would you like to discuss any aspect of your experience that is related to funding of small businesses that you feel has not been covered in this interview?

Appendix 1.4 questions related to providers of finance.

Name of provider of finance-----------------------------------

* *Question prompt:* Could you please tell me approximately

- What is the number of small businesses that have borrowed from your bank?

  *Would you like to increase this number?

  Yes No

  *If not, why not?

  *If yes, why have you not done this?

- What types of activities are often funded?

- What is the type(s) of small business that government aims to fund?

- How do small businesses get to know about the loans which are available?

- What are the repayment period and interest rate charged for the different types of small business loans?

- Could you please tell me who is responsible for determining the repayment period and the interest rate? Is it, your government or your institute?

- Do you think the interest rates and administrative expenses on the small businesses loans are suitable? And is there any special support for small business used in your institute?

- What do you think are the main obstacles facing your institute when making decisions to lend to small business?

- What are the guarantees required for granting loans to small businesses?

- When the business faltered or failed what are you doing to ensure your institute's rights?

- Could you please tell me how many small businesses failed in the last few years, and what were the reasons in your opinion?

- What are the criteria in assessing the viability of small business loans?

- What are the differences between the processes of assessing the viability of small business loans from large business loans?

- What do you think about the relationship between the owner –managers of small businesses and banks in general?

- Would you like to discuss any aspect of your experience that is related to funding small businesses that you feel has not been covered in this interview?

Thank you for your cooperation