

Literature Review on Factors Influencing Accessing Bank Loan Issues of Small and Medium Enterprises (SMEs) in Libya

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Purpose

- ▶ This paper seeks to introduce, summarise, and reflect on the key themes and findings raised by the six papers selected for this literature review devoted to Factors Influencing Accessing Bank Loan Issues of Small and Medium Enterprises (SMEs) in Libya.



Design/Methodology/approach

- ▶ The conclusions are drawn from desk research generally and the articles contained in this collection.
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Prior Studies

- Gallagher and Stewart, 1984; Ganguly, 1985; Bums and Dewhurst, 1986; Dyson, 1990; Keasey and Watson, 1993; Berry and Levy, 1994; Binks et al., 1997; Cook and Nixon, 2000; Sanusi, 2003; OSCE, 2006; Ariyo, 2008; Kpelai, 2009; Ayozie and Latinwo, 2010; Emine, 2012; Muritala, et al., 2012; Kiraka, et al., 2013.
- Factors Influencing Accessing Bank Loan Issues of SMEs
 - **Internal factors** (borrower-specific (entrepreneurial) and firm (enterprise))
 - **Institutional** (Bureaucracy, loan application forms, lack of understanding of the loan application procedure, lack of understanding of the lending criteria, collaterals volume, interest rate)
 - **External factors** (systemic factors, also known as state variables and environment factors)

Definition of SMEs in Libya

Business	Size of employment	Size of fixed assets
Small	No more than 25	Less than 2.5 Million Libyan Dinars
Medium	26-50	Less than 5 Million Libyan Dinars
Large	More than 51	More than 5 Million Libyan Dinars

Importance of SMEs in Socio-Economic Development in Libya

- ▶ The Ministry of Trade and Economy (MTE) in 2006 estimated the number of SMEs in Libya at 180,000 (Elmansori and Arthur, 2013; Eltaweel, 2012; Porter and Yergin, 2006).
- ▶ although 96% of the enterprises in Libya are small and medium enterprises, their contribution to the GDP of the country is only 4% (Atniesha, 2009; Abdesamed and Abdwahab, 2012; Essmui et al., 2013). This is supported by UN's report of 2008. It stated that: "the contribution of SMEs to the Gross Domestic Product (GDP) is estimated to be less than 10 percent in most African counties" (UN, 2008, p. 6).
- ▶ The main aspects of this disadvantaged position is due to: (1) 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 (Eltaweel, 2012, UN, 2008), and (2) the financial difficulties for these enterprises to have accessed for bank loan successfully (Falah, 2006; Eltaweel, 2011; Abdesamed and Abdwahab, 2012; Zarook et al., 2013 a, b).

SMEs Access to Finance in Libya

- In Libya, bank lending to SMEs Firms is relatively low say about (17.1%), SMEs tend to depend a lot on their own fund (60.5% of firms) for financing at startup stage, this is according to survey conducted by Abd Wahab and Abdesamed (2012). Moreover, Eltaweel (2011) and Elmansori and Arthur (2013) found out that loans from banks represent only 11% and 8% . These results provide a support to the Pecking Order Theory (POT).
- Abd Wahab and Abdesamed (2012) noted that 72.4 % SMEs financing after start up still use informal financing, such as personal savings 25%, also family (25%), trade credit 15.8% and SME profits 5.3%. Only, 27% use the bank loan. SMEs, after the startup stage, are perceived to have built a good rapport with their banks.

Factors Influencing Accessing Bank Loan Issues of SMEs in Libya (1)


Internal Factors	Relationship	Study
➤ Age of SMEs	(Positive)	Zarook et al. (2013c)
➤ Size of SMEs	(Positive)	Zarook et al. (2013c)
➤ Sector of SMEs	(Positive)	Zarook et al. (2013c)
➤ Education of owner-manager	(Positive)	Zarook et al. (2013b) Abdesamed & Abdwahab, 2012b
➤ Experience of owner-manager	(Positive)	Zarook et al. (2013b) Abdesamed & Abdwahab, 2012b
➤ Business Plan	(no affect)	Zarook et al. (2013b)
➤ Personal Networking	(no affect)	Zarook et al. (2013b)
➤ Financial Performance of SMEs	(no affect)	Zarook et al. (2013a)



Factors Influencing Accessing Bank Loan Issues of SMEs in Libya (2)

Internal Factors have not studied in Libyan context:

- Location of SMEs.
- Having audited financial statements.
- Ownership type.
- Availability of information.
- Gender of owner-manager.
- Owner-manager age.
- Availability of collateral.
- Entrepreneurial family background-family history.
- Skilled employees.



Factors Influencing Accessing Bank Loan Issues of SMEs in Libya (3)

Institutional Factors

Eltaweel (2011), who did a supply-demand survey on finance of SMEs in Libya found positive relationship and interdependence between access to finance and some of these factors namely, Bureaucracy, collaterals volume, interest rate and lack of access to information. He stated that " Twenty-one of the sample (about 78%) thought that bank loans were too costly, both in terms of collateral (125% of the loan) and interest rate (5-7.5% of the loan)

Factors Influencing Accessing Bank Loan Issues of SMEs in Libya (4)

External Factors

Eltaweel (2011) found a relationship between access to finance by Libyan SMEs and some of these factors namely, social relationship and government policy.

Abd Wahab and Abdesamed (2012) found a relationship between access to finance by Libyan SMEs and socio-cultural factors (practically religion). They found that "loan has interest" is the highest important reason as to why SMEs do not apply for any loan from the bank. This is because in Islam, interests (Riba) are prohibited in all affairs, including in the business transactions. The verses of the Qur'an state: (Surah al-Rum,verse 39) "that which you give as interest to increase the people wealth increase not with God; but that which you give in charity, seeking the Goodwill of God, multiplies manifold."

Notes on pervious studies in Libyan context (Conclusion)

- ▶ **First**, In terms of research methodology, two approaches were adopted in the previous studies in investigating the most important factors which affect firms to have access to bank loans in Libya namely: (1) one-dimensional analysis (Demand-side study); and (2) two-dimensional analysis (Demand and Supply-side). Almost all of previous studies were one-dimensional analysis (Demand-side study). Eltaweel (2011), is the only who used two-dimensional analysis.
- ▶ **Second**, the results of these previous studies were almost similar. This endows their findings with more objectiveness. Some of internal, institutional and external factors have been identified as key factors influencing SMEs access to finance in Libya by these studies. However, they fail to investigate a number of other factors identified by the literature, which could be a topic of further researches.



Research Limitations

The main limitation of the literature review, as a study methodology, is that it relies on information which has already been researched (secondary information), and if there is none, then specific questions on the new study might not be adequately answered. Secondly, owing to different objectives and methodologies (and study designs) of previous studies, the data might not be in the right format or specific enough to answer the current study. Because of these limitations, a literature review is always conducted in preparation for primary and more detailed research.



Originality/Value

This is the first review of this area and thus should help intending and existing scholars. It presents a collection of mainly empirical papers on an important but neglected topic, namely Small and Medium Enterprises might aid economic development in Libya.



Thank you so much for your attention