A review of the contextual factors associated with the North African business environment – descriptive historical study

Ali Abdullah Alnaas, Kieran James* and Albert H.S. Scott

School of Accounting, Economics & Finance,
Faculty of Business and Law,
University of Southern Queensland,
Toowoomba QLD 4350, Australia
E-mail: Ali.alnaas@usq.edu.au
E-mail: jamesk@usq.edu.au
E-mail: Kieran.James@usq.edu.au
E-mail: Albert.Scott@usq.edu.au
*Corresponding author

Abstract: This study compares the contextual factors (culture, political, legal, economic system, and stock exchanges) in three North Africa countries (Egypt, Morocco, and Tunisia). The contextual factors of these countries are very similar being Islamic culture and French law. These countries have similarities in their recent histories. They were occupied by European countries which resulted in English and French languages being spoken in this region. Dictatorial governments (regardless of the types of governments – socialist or otherwise) have also controlled these countries for considerable periods of time since independence. In line with international society, an openness policy has been adopted and many reforms have been made in the stock exchange of these countries. However, much work remains to be done. Although contextual factors are similar, each country is in a slightly different place today in regards to economic and capital markets' development. Policy-makers can learn from the experiences of these three NA countries as the obstacles and backgrounds of these three countries are similar. This is the first accounting paper of which we are aware that studies these three NA countries.

Keywords: accounting reforms; capital market; culture; economic system; Egypt; legal system; Morocco; North Africa; NA; political system; Tunisia.

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Biographical notes: Ali Abdullah Alnaas graduated from Garyounis University, with a Bachelor's degree in Accounting in 1992). He worked as an Accountant in an industrial company (in Al Khoms City) for more than five years. He obtained his Master degree from Garyounis University. Then, he worked as a Lecturer at the Faculty of Economics, University of El-Mergeb – Libya. Currently, he is studying PhD in Business at the University of Southern Queensland, Australia. His research interest is accounting-related topics.

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Kieran James is an Associate Professor in Accounting at the University of Southern Queensland (Toowoomba, Australia). He has 20 years of teaching experience in Australia and Singapore and has published over 35 scholarly articles in leading journals including *Accounting Forum*, *Critical Perspectives on Accounting*, *International Journal of Critical Accounting* and *Musicology Australia*. His main research interests are: accounting education; business ethics education; Marxist perspectives on accounting and the labour process; employment prospects in accounting for minority groups; trade union strategy and immigrant worker issues; Singapore opposition politics and youth activism; and the sociology of death-metal and punk music scenes.

Albert H.S. Scott has considerable experience in lecturing on both undergraduate and graduate courses in Australia, Singapore, Brunei, Hong Kong and England. In Singapore, he established and managed the School of Information Technology at Temasek Polytechnic and was a member of the academic board. In Brunei, he was the inaugural Head of the Department of Computing and Information Systems at the Institut Teknology of Brunei and was a member of the academic board. In Hong Kong, within the Senior Directorates' Office, he successfully completed a project for the Hong Kong Council for Academic Accreditation and was the recipient of an Outstanding Team Award.

1 Introduction

North Africa (hereafter NA) is an important area in the world with a population of around 157 million, the majority being Muslims who speak Arabic as the official language. As the colonial powers long ago understood, NA has a strategic location which links Africa (source of raw materials) and Europe (industrial force). This strategic location continues to make NA a suitable market for foreign investors (Roudi-Fahimi and Kent, 2007). Furthermore, its location adjoining the North Mediterranean Sea, Atlantic Ocean, and Western Sahara provides it a strategic position in world commerce. Although Arabic is the region's official language, English and French are widely spoken (Boulanouar, 2010; world, 2010). NA is also considered a rich region owning black gold (Jaffe et al., 2011). Recent financial reforms in this region have endeavoured to follow the global neo-liberal model and, although the financial markets of the region remain small, they have rapidly grown and are important parts of several national economies (Kenny Todd and Charles, 1998). For these reasons, this region has been chosen to be investigated in this study. In this paper we consider the contextual factors (cultures, political systems, economies, legal systems, and stock exchanges) of this region. The three countries we study are Egypt, Morocco, and Tunisia which are home to 95% of the total listed companies in NA.

2 Egypt

2.1 Introduction

Egypt, historically based around the River Nile, is one of the oldest civilisations in the world (Williams, 2006). The Arab Republic of Egypt is also one of the largest countries in NA being 1,001,450 sq km in size. It is considered as a main economic power in both the Arab World and Africa (Attia et al., 2011). The population living in this country is 78,866,635 people, the majority of which are Muslim and speak Arabic as the official language (world, 2010). The country has witnessed important events in the past few decades.

2.2 Egyptian culture

People of Egypt consider family as the most important part of society, and relatives represent a key element in almost all public relationships. Furthermore, continuing the family is regarded as the major reason for getting married. In spite of the ideal of the extended family in Egyptian society, the nuclear family is common in practice (Zahran, 2011). In Egypt, as an Islamic country and despite some liberal practices, the relationship between both genders revolves around either marriage or blood relationships (Omair, 2009).

Although some Islamic Egyptian groups have tried to force the separation between genders, co-education is widely practiced in the country (Pratt, 2005). Food is a mixture of Greek, Turkish, Syrian, Palestinian, Lebanese, and local food (Wright, 2003). As Islam instructs, pork is forbidden and Ramadan is the annual fasting month (Drumm, 2008). In this country consumption of alcohol is banned and the role of Islam in public life is essential (Pratt, 2005). For clothes, the 'hijab' is known and widespread. In fact, people generally perceive women wearing the hijab as being more respectable than those without it (Omair, 2009). Removing shoes is important before entering mosques because religious values are essential in Egyptian life (Drumm, 2008). The cafés are full with males who play, drink and talk with each other (Garson, 2005). It should be noticed that Egyptian people welcome others and deal with others kindly regardless of who they are (Williams, 2006). In short, there are factors which clearly impact the direction of cultural practices such as faith, history, and the ethos of the people (Garson, 2005).

2.3 Egyptian political system

Egypt saw a period of stagnation prior to the revolution of 1952. The reasons for this difficult stage for the country were mismanagement, inherent instability, and economic crises. In the first steps, after the revolution of 1952, independent external policy was adopted, and the rest of British hegemony was removed by the new government, which also denied the previous mistakes and promised a new era. It should be noticed that this government strongly encouraged scientific research. Despite some disagreements with various Western countries and the perspectives of some Egyptians, many people considered Nasser, the leader of the revolution of 1952, as a hero and 'wonderful president'. His government achieved great successes including improving the situations of the peasants.

Although, at the beginning, Anwar Sadat, who became president at the end of Nasser's era in 1970, seemed to follow Nasser's way, he changed direction completely by trying to re-build relationships with the Western world. Furthermore, he adopted the policy of *infitah* (opening up of the economy). After the war with Israel during Sadat's era, Egypt signed a peace agreement with Israel. As a result of this agreement and the oppression of internal opposition, local dissatisfaction with the regime increased at a steady pace (Johnson and Johnson, 2006).

After President Sadat was killed (at the end of 1981) Mubarak became president of Egypt and he controlled the country for around three decades. He tried to reform the political situation of the state and awarded freedom to a great number of political prisoners. Furthermore, in his era, Egyptian journalists undoubtedly experienced less surveillance and control (Najjar, 2010). In other words, during Mubarak's age, a kinder approach was adopted to encourage personal liberty and local community institutions but this was balanced by strict policies against any actions which might threaten the government or its leader (Rowe, 2009). On 25 January 2011, the Mubarak regime was overthrown by a revolution of the Egyptian people in the broader NA movement generally now referred to in the West as 'The Arab Spring'. Certain political and social issues (high levels of corruption, high unemployment rates, bureaucratic lawlessness, and regular encroachments upon human rights) were the factors which ignited revolutionary fervour (Attia et al., 2011). During the past 25 years Egypt has been considered both the most crowded and the most politically important state in NA if not in the Arab World taken as a whole (Blaydes, 2008).

2.4 Legal system in Egypt

Egypt has faced many events throughout its history which have impacted, in certain ways, not only upon its political system but also upon its legal system. The legal system at the time of the existence of the Ottomans was affected by Ottoman laws which were usually modified to be made suitable for the Egyptian setting (Fahmy and Peters, 1999), In Egypt the legal system is now based on two main sources: Islamic law (after the Islamic conquests) and French law (which was received during the period of French occupation) (world, 2010). Many commentators perceive that, in spite of changes in some Egyptian laws, for a long time the Islamic law has been dominant and widely practiced (Dupret, 2007). Prior to the year of l952 (the revolution), the code of personal status, such as marriage, divorce, and legacy, was upheld by a detached structure of religious courts. The Islamic people had their particular courts, whereas Coptic (Orthodox Christian) people had their own courts. In the Nasser era, despite the religious influence upon many decisions, religious law was officially cancelled and its tasks were given over to secular law.

During the Sadat era, the laws of personal status were altered to give women more rights. Furthermore, the magistrates were widely esteemed. Despite his personal dissatisfaction with some of their judgments on political issues, Sadat avoided any removal of judges and created extraordinary courts for political crimes (world, 2010). During the end of Sadat's era and the first years of Mubarak's rule, the judges were encouraged by receiving social benefits (Wolff, 2009). The rise of secularisation and the decreased influence of Islamic law have led to reforms of the legal system. For example, the civil and commercial laws were established based on secular French ideology. To sum up, the 19th century and the beginning of the 20th century witnessed many secular changes in the law of Egypt and in its practices (Moustafa, 2010).

2.5 Egyptian economy

Prior to the revolution of 1952 the free market and the private sector played important roles in Egypt's economy. Therefore, this sector (private) contributed to the majority of GDP and provided around 95% of the workplaces, whereas the public sector had important limited functions such as providing water, electricity, and transportation. However, the economy (because of two main reasons) in time transformed itself from private sector into public sector. The first one is the unstable military situation in the region. Another reason is the move toward socialism. It can be seen from the economic experiments of the 1950s that the new government (installed by the revolution of 1952) did not have fixed plans about the future economic direction of the country. The new regime focused mostly upon agricultural reforms. Furthermore, it paid its attention to increasing local investments and tried to use them to improve the situation of the society and to build good infrastructure. Even though it remained under a system of private ownership, agriculture was limited by the government to (for personal property) no more than 200 feddans. From 1957 the nationalisation of foreign property led to the expansion of the public sector (Kenawy, 2009).

Although, for a long time, the development of the economic sector in Egypt was affected by the government, which significantly intervened in the product, labour, and stock markets, the main reason for the considerable growth of the Egyptian economy during the 1960s was foreign direct investment and especially aid from the former Soviet Union and from the USA.

However, during the period between 1960 and 1973, because of the control of the central bank, there was a significant decrease in economic growth (Abu-Bader and Abu-Qarn, 2008). The 'openness policy' (consumption phase) was adopted in the early-1970s by Egypt. Furthermore, supporting the private sector to play a significant role in improving the economy was being increasingly seen as important. This policy (open door) did not have enough institutional features and was not incorporated into an overall plan for economic development (Kenawy, 2009). Despite Al-Sadat's new economic policy (open door), the economy of Egypt in its structure did not alter significantly during the 1970s and in the first years of the 1980s (Beinin, 2005).

In the 1980s, the economy of Egypt underwent a critical stage and faced some problems, such as increased rates of inflation and taxes and an unsuccessful stock exchange (Kenawy, 2009). In the early-1990s liberalisation of the economy has been seen as a major driver of economic growth (Abu-Bader and Abu-Qarn, 2008). Whilst the Egyptian economy is more stable than others in the NA area this is simply because supply has tended to respond to demand. The economy may have been slow in terms of its movement, regardless of what the former government had been doing in regards international economic development (Topol, 2009).

2.6 Egyptian stock exchange

Cairo and Alexandria are the two premises for trading but they represent one unified Egyptian stock market (Fawzy, 2003). Financial information plays an essential role in this market. This information is considered a major source of reliability. As result of this, local and international investors rely mainly on this information in making their decisions. For this reason, financial information has been improved and developed by various interested parties. The Egyptian Government is responsible for establishing and enforcing accounting standards (Ebaid, 2011). Furthermore, the former regime attempted to organise the stock exchange by enforcing a law for all listed companies in the market (Ragab and Omran, 2006; Wakayeh, 1997). During the 1990s the then government made some attempts to help local investors for investing and raising of capital and, at the same time, attracted foreign investors who might assist in economic growth and development.

One of these attempts was moving the economy to a free market economy and starting the program of privatisation. In addition, reopening the stock exchange, in the year of 1992, was another step in the same direction (Ebaid, 2011). In general, accounting in Egypt has been impacted by all of these developments.

Egypt recognised the fundamental importance of the capital market in the program of economic reform in 1991. In this respect, in 1992, a new law (the *Capital Market Law 95/1992*) was issued to encourage private investors, increase protection of investors, and improve the role of banks in motivating financial markets and improving the reliability of the stock exchange (Ragab and Omran, 2006; Wakayeh, 1997). By this law, listed companies must apply the rules of *Capital Market Law (CML) 95/1992* in terms of disclosures in annual report which are considered the most important tool for companies in disclosing their financial information (Hassan et al., 2009).

This law in turn has led to establishment of a new organisation in the market named Capital Market Authority (CMA) which is interested in the regulation and supervision of the financial markets. The function of this organisation is similar to that of the Securities and Exchange Commission (SEC) in the USA. This function includes the control over the registration and the disclosure of listed companies in the market. Moreover, another function of the CMA is to supervise the behaviour of brokers and enforce the law of transactions (Ebaid, 2011). It may be responsible for developing transparency and also working to maintain the security market for investors on the Egyptian stock exchange (Dahawy and Conover, 2007). In addition, CMA focuses on monitoring the market's activity, facilitating the growth of capital, and promoting trading securities to build public confidence which may contribute to obtaining new investment. It is also important to note that CMA is responsible for enforcing the Capital Markets Law and related decisions (Dahawy and Conover, 2007). In 1996 *Decree No. 323* was enacted by the then Head of Economy to constitute a permanent commission to issue standards for both accounting and audit. The commission offered suggestions about accounting standards and introduced drafts to concerned entities to obtain their approval. This step was considered as the first step towards establishing comprehensive accounting standards.

It is also important to note that the International Financial Reporting Standards (IFRS) are generally perceived in Egypt to be 'high-quality'. At the same time, the former government attempted to harmonise Egyptian Accounting Standards (EAS) with IFRS (Ebaid, 2011). Egypt adopted the IFRS in 1996 (Dahawy and Conover, 2007). The plan in Egypt was to gradually implement IFRS. In this respect, the then Minister of Economics issued in October 1997 *Decree No. 503* which drew extensively upon IFRS (whilst also considering local conditions) to establish 24 EAS. By 1998 all companies on the Egyptian stock exchange were required to follow these new standards. However, *Decree No. 503/1997* was replaced in late 2006. In this year, *Decree 243* of EAS (which includes 35 EAS based on IFRS) was issued by the then Minister of Investment to be enforced upon all listed companies in the Egyptian financial market by the year 2007 (Ebaid, 2011). Furthermore, Egyptian standards were to be be followed by listed companies in the financial market, and so Egyptian financial statements were to essentially conform to IFRS (with some trivial exceptions). In addition, when Egyptian standards were absent for specific accounting issues, applying IFRS was compulsory for listed companies. It is important also to note that the CMA was able to suspend any non-compliant company (Hassan et al., 2009).

In 2002, important accounting rules were launched in the Egyptian market. These rules have had significant impact upon this market (Elsayed, 2010). In consequence of applying new and strict listing policies from July 2002, the number of firms listed on Cairo and Alexandria Stock Exchanges (CASE) declined significantly from 1,148 firms in 2002 to 595 firms in 2006 (Berg and Capaul, 2004; Elsayed, 2010).

On the other hand IFRS adoption has brought with it some drawbacks. Although adopting IFRS has helped some developing countries (such as China and Romania) to move from communism to capitalism, this adoption of IFRS has created some conflicts between these standards and local cultural values in some states (Dahawy and Conover, 2007). For example, disclosure requirements of IFRS, in certain key respects, do not satisfy local users' needs in Egypt, and this disclosure (unlike in some other states) has been low (Dahawy and Conover, 2007). Despite enforcing rules in financial Egyptian market such as EAS and IFRS, complying with the disclosure requirements of these standards has not been the norm (Abd-Elsalam, 1999; Dahawy et al., 2002; Hassan et al., 2009). The reason behind this has been Egyptian culture. IFRS may be inconsistent with the socioeconomic needs of local investors (Dahawy and Conover, 2007). Users may well be sceptical of accounting information regardless of IFRS adoption (Ebaid, 2011). If adopting IFRS does not consider local conditions and expertise (or the lack of it) problems may be increased by such adoption.

In Egypt, although the company law system was determined predominantly by French civil law, influences of the Anglo-American common law system can be noticed in the capital market and its transactions. For instance, *Corporate Law (No. 159/1981)* regulates joint stock firms, whereas the *Capital Market Law (No. 95/ 1992)* governs the financial market and defines the structures of both the Cairo and Alexandria Stock Exchanges (CASE) (Elsayed, 2010; Fawzy, 2003). Many Egyptian firms are held by comparatively few shareholders because of tax laws which encourage listing (Berg and Capaul, 2004; Elsayed, 2010). In the year 2005 a code, guidelines, and standards of company governance were launched by the Egyptian Institute of Directors. These were to be followed by Egyptian firms (Elsayed, 2010). It is essential also to note that providing copies of their semi-annual and annual reports to CMA and ESE were necessary for these companies, and a summary of these reports were to be published in two daily newspapers (Hassan et al., 2009).

In short, the Egyptian market is still considered to be a less efficient market by world standards. Furthermore, the disclosure and transparency of accounting information have not been adequate despite formal IFRS adoption (Elsayed 2010; Wahba 2005). The Egyptian stock exchange has a small number of listed companies and low trading volume (Ebaid, 2011). In addition, the Egyptian stock exchange has not yet received significant foreign institutional investment (Elsayed, 2010). It will be interesting to observe the new government's attitude to CASE.

3 Morocco

3.1 Introduction

Morocco adjoins both the North Mediterranean Sea and the Atlantic Ocean and it is located between Algeria and the Western Sahara. This gives it strategic position. The country has both long coasts and large desert regions. The national population is more than 32 million people with 1.61 million people being added to this total annually (Njoku, 2006).

3.2 Culture in Morocco

As an Islamic state, Islam in Morocco is a way of life. The Arabic language is spoken as the mother tongue whereas political and business people generally speak French. Furthermore, English and Spanish are both widely used while some Berber dialects are still used in the media (HilalPlaza.com, 2003–2007; Orlando, 2011). It is easy to notice that religious and familial values are very important for Moroccans. Moroccan people are friendly and social people. They usually maintain good relationships with one another. Moroccans may welcome guests by hugging, kissing, and shaking hands (Njoku, 2006). It is not normal for Moroccans to enter their houses with shoes on. Furthermore, the giving of gifts to their host's children is a common practice in Morocco.

3.3 Political system in Morocco

The Moroccan constitution was constituted as a kingly system with a parliament and an independent judiciary. The King is considered as a symbol of the country and other political actors should continue to respect his position (Cherkaoui and Ben Ali, 2007).

Since Morocco obtained its independence, the regal family has strongly controlled the state (Cavatorta, 2007). Despite a dominant monarchy, the Moroccan constitution after independence adopted a policy of *authoritarian pluralism* (multiparty). Although Islamist groups represented a real challenge to the Moroccan Government during the 1980s, Morocco, benefiting from its neighbours' experiences, took preventive policies to deal with these organisations (Willis, 2006). Furthermore, nearly all the time the government has allowed the other parties to play some roles in the political sphere. This movement into democracy has occurred because the Government of Morocco wants to provide a good image about itself to the external world. In addition, Morocco was widely considered as a state which had a stable constitution.

In the first years of the 1990s Hassan II (who is the president of the country) offered the Socialist Party, from the opposition, the chance to rule the country. After accepting this offer in 1997, many people considered this change as a serious step towards democracy. However, many people perceived that real democracy was still some years away. At the beginning of Mohamed's VI era, Morocco enjoyed a stable period for both ordinary people and political organisations. These people and organisations had for a long time asked for increased liberalisation which the King was in fact now encouraging. The political regime in Morocco has worked relatively successfully with the opposition parties, since independence, being alternately lured and intimidated. This policy still works to some extent. However, its internal stability has undoubtedly declined because of broader societal changes (Cavatorta, 2007).

3.4 Moroccan legal system

Morocco has been long impacted by both Islamic heritage and French law. After obtaining its independence from French occupation (1956), the state chose the French form, which gives the government more opportunity to control the legal system, instead of religious law. However, the government left family law to follow customary Islamic (Maliki jurist) law. In the year 2004, Morocco created a new family rule changing status of women by giving them more rights in social life such as marriage, divorce, and keeping children. These changes put Moroccan women close to the position of Tunisian women.

Despite some exceptions, all people are equal according to the Moroccan Constitution which also abides by international human rights (Tamanna, 2008). On the other hand, sometimes rules can be broken. For example, although there is the principle which says that the judicial authority is independent from the legislature and from the executive, the King presides the Superior Council of Magistrates (Sater, 2009). In general, in Morocco, the legal system relies on Islamic rules and French and Spanish civil code systems ('Morocco', 2005).

3.5 Moroccan economy

Despite having access to abundant natural resources, about 20 percent of Moroccan people continue to live in poverty and unemployment is widespread (Shachmurove 2004). Although the economy in Morocco has much potential, its performance has not been strong. Compared to its NA neighbours, Morocco has had minimum rates of growth and generally weak performance from the time of independence up until the present. The weakness of the Moroccan economic system is due to many factors such as ineffectiveness of the labour market; the system of exchange rates; poor information for decision-makers; difficulty of the coordination between private and public sectors; weather conditions; and mismanagement of economic plans (Cherkaoui and Ben Ali, 2007). On the other hand, the Moroccan Government has pursued some key socioeconomic improvements, such as privatisation, the focus on civil rights, and the crackdown upon corruption. The government constituted local investment centres to reduce bureaucracy and suggest new investment through different motivations (Shachmurove, 2004).

Morocco has witnessed many important structural reforms from the 1980s in the economic sector, in infrastructure, in privatisation, and in the stock market. By the beginning of 2000, many economic developments and improvements had become readily apparent. These improvements are as a result of the King's (Mohammed VI) policy which has combined economic liberalisation, increased democratisation, and efforts to decrease poverty (Cherkaoui and Ben Ali, 2007). Despite certain government actions, prices are usually liberalised. Morocco also is considered a good place for foreign investments because of Moroccan policy which has treated local and foreign investors similarly (Shachmurove, 2004).

3.6 Moroccan stock exchange

Morocco has witnessed fundamental changes in its political sector over past decades (Zemni and Bogaert, 2011). In the economic sector also, over the last ten years or thereabouts, Morocco has put in major efforts to reform its financial system. There have been two main areas of reforms: improvement of the stock exchange and, at the same time, privatisation of public companies. This reform program was driven by the realisation that the Moroccan economy had been sluggish and the stock exchange weak (Casablanca Stock Exchange had not been active) (Smith et al., 2002).

Although the Moroccan financial market is the third ranked in Africa, it does not play a vital role in the economy commensurate with its trading volume (El bouhadi, 2010). In this market, incentives are probably not enough, particularly when these incentives accrue to small shareholders (El bouhadi, 2010). This financial market has been supported by deregulation and privatising public sectors (Smith et al., 2002). These reforms have aimed to decrease direct intervention of government and to support the position of the free market in distributing financial resources (Jbili et al., 1997).

Reforming or establishing of stock markets has been considered as one of the important steps in Africa's economic development. It is noticed that these markets offer some benefits such as attracting and enhancing investments and improving the processes of the local financial system generally and the capital market especially (Kenny Todd and Charles, 1998; Smith et al., 2002). Morocco has opened its market to foreign contributions since it embarked on its program of economic reform (Sourial, 2004). Establishing interbank foreign exchange markets (in 1994 and 1996 in Tunisia and Morocco respectively) was considered a significant step into the decentralisation of management of foreign exchange. In addition, this step permits market forces to play a greater role in determining the exchange rate (Jbili et al., 1997).

In Morocco for around seventeen years, the stock exchange was organised by multiple laws (Sourial, 2004). In the Casablanca Stock Exchange, the majority of listed firms are likely to be controlled by Moroccan and/or overseas holding firms (El bouhadi, 2010). Observing the quality of financial information and enforcing accounting standards for listed companies on the Morocco Stock Exchange is the responsibility of the Securities Commission (Rahman et al., 2002). In fact, this commission is likely to ensure that financial information from public firms are prepared and publicised in line with legal and regulatory frameworks (Rahman et al., 2002). It is beneficial also to notice that this framework particularly relies on laws for the securities commission (general principles governing the accounting framework and practical matters) and on organisations' law for collective investment in securities (Rahman et al., 2002). Moreover, financial companies (banks and insurance firms) play important roles in organising these companies. Also, it is not necessarily for holding companies to be listed on the exchange market (El bouhadi, 2010). In the stock exchange, Moroccan listed companies rely mainly on the organisational structure within its premium trades (El bouhadi, 2010).

In Morocco, reliable accounting information is needed. Although the IFRS has been globally adopted, many organisations in the Middle East and North Africa region (MENA) (23% of banks and 42% of other listed companies) have not yet adopted (Rocha et al., 2011). As a result of inefficient information in the Casablanca Stock Exchange, the governance of listed firms has frequently been substandard (El bouhadi, 2010). Despite the fact that there are no limitations on foreign ownership, foreign contributions to the stock exchange have not been high (Smith et al., 2002).

Although Morocco has made significant efforts to improve its financial sector over the past three decades, additional work remains to be done (Abed and Davoodi, 2003). Marashdeh (2005) examined some stock exchanges in the MENA region and examined the integration between some developed world stock exchanges and these markets. The results of his study confirm the notion that international investors may have opportunities to gain long-run benefits through varying their portfolio in the MENA region. Penalty/reward system can help to give priority to the efficiency of emerging markets (El bouhadi, 2010).

4 Tunisia

4.1 Introduction

Tunisia is a relatively a small country by the standards of the NA region (163,610 sq km). It is located between Libya and Algeria (bordering the Mediterranean Sea). The population of this country is 10,486,339 people. The majority of them are Muslim and speak Arabic as the mother tongue (world, 2010).

4.2 Culture of Tunisia

In Tunisia, different cultures such as Arabic, African, and European work together and impact upon each other. For this reason, Tunisia has tended to be a secular country. Although Tunisian culture has experienced Turkish influence in the area of clothes and French influence in the area of language (which is considered to be a second language), the most important features of culture are derived from Islamic and Arabic cultures (Bleasdale, 2006). Arabic people represent the majority of the population (98%), while Europeans and Jews make up the remainder (2%). Islam, particularly the Sunni branch, is followed as the official religion by about 98% of the population. Although Arabic is the official language in Tunisia, the French language is also widely used (Tunisia, 2005; Carmona and Trombetta, 2010).

4.3 Tunisian political system

Many changes were seen in Tunisia after it moved out from under French dependence. Firstly, between 1956 and 1970, many political and communal reforms were done that later led to some economic problems. During the 1970s, the main move was from socialism to ultra-liberalism. The 1980s was a difficult decade for President Bourguiba who tried to combine a plan of renewal with appreciation for customs. In the year 1987, via a bloodless coup, authority was taken by Ben Ali who established the second Republic which differentiated itself by returning to tradition, encouraging economic liberalism, and strong policies against rebels (Contreras, 2007). In the initial years of the 1980s Tunisia took formal steps to treat the problem of religious extremism which came to the fore as a national problem after the broad unrest that had occurred at the tail-end of the 1970s. These events were considered the primary major existential threat to the Tunisian regime.

Bourguiba's regime followed the theories of Marxism. The attempt to undertake some reforms at the beginning of the 1980s did not stop the social problems completely. Despite multiple parties existing in Tunisia, in real life these parties were not independent. In other words, no opposition party was able to win in the elections. During the eras of Bourguiba and Ben Ali, the ruling party has won overpowering majorities in elections (sometimes more than 99% of the vote) (Willis, 2006). Furthermore, it should be noticed that in Tunisia some rights were not visible such as press freedoms, independent elections, respect for human rights, and others. For these reasons, the Tunisian political system pre-2011 could not have been considered to be a truly democratic system (Powel, 2009).

In January 2011 hundreds of thousands, and then millions, of Tunisians went into the streets and demanded change within the context of what has come to be termed in the West 'The Arab Spring' (Alterman, 2011). On 14 January 2011 the Tunisian revolution forced the president of Tunisia to flee the state, after four weeks of mass popular demonstrations (Attia et al., 2011).

4.4 Legal system in Tunisia

First of all, it is important to note that the Tunisian legal system relies on Islamic rules and the French civil code (Tunisia, 2005; Ding et al., 2007). In 1956, after independence, the government closed the Shari'a courts. After this a unified judiciary was appointed in Tunisia. The leader of the state was responsible for nominating magistrates upon the suggestions of the Superior Judicial Council.

The courts in many regions (51 regions) represented the judicial structure of Tunisia. Each case was heard separately by one judge. The function of these courts was to look at cases relating to civil situations, labour unrest, private lands actions, and other issues (Dahmène Touchent, 2002). In the period after independence (1956) the new government of Tunisia stage by stage developed the law of Personal Status. Great changes revolving around social reforms and the position of women in society were made. Men and women were equal according to Tunisian law especially in social life. For example, both genders had the same responsibilities in terms of founding the family and divorce rights. Despite some disagreements surrounding aspects of Islamic law, Tunisian law has been impacted by Islamic rules. Tunisians are not likely to totally refuse Islamic standards but they try to find new and somewhat flexible understandings of these rules (Tamanna, 2008).

4.5 Tunisian economy

After the time of French power, logically, the Tunisian Government began to exorcise French control over its possessions. Despite the announced independence, Tunisia had some problems in its infrastructure and resources in its journey towards real independence. During the 1960s and 1970s socialist theory was adopted for almost a decade. After the finish of the socialist era the door was opened to global trade which revealed the extant economic weaknesses of the country. At the beginning of the 1980s Tunisia's economy suffered major setbacks as a result of France and Italy's drawbacks on some Tunisian goods, the workers' problem in Libya, and decreases in oil prices. Furthermore, these problems and their impacts during the 1980s pushed the economy further towards a free market economy (Kaboub, 2007).

In the middle of 1995 Tunisia, before any of its NA neighbours, decided to enter a Free Trade Agreement (FTA) with the European Union (EU) (Hakimian et al., 2005). Other than in the period between 1992 and 1997, the economy in Tunisia sometimes faced important decreases in its real purchasing power (Ghali and Mohnen, 2010). Although Tunisia, to some extent, has a stable economy, the percentage of unemployment is approximately 15% many of whom are postgraduates (Kaboub, 2007). In recent years Tunisia has adopted a long-term economic plan, which was originally intended (before The Arab Spring) to last from 2007 to 2016, to treat the problem of unemployment and to increase individual incomes (Chailloux et al., 2009).

4.6 Tunisian stock exchange

The Tunisian stock market was constituted in 1969. This market had 38 listed companies by the end of the 1990s (Loukil et al., 2010; Sioud and YounÈs, 2010; Tunisia, 2010). During the past two decades several reforms have been enacted in the Tunisian financial markets. The reforms have included: focusing on privatisation; liberalising trade; establishing a Tunisian SEC; introducing new financial tools; and introducing an electronic system. All these reforms increased the capital in the market from 610 million dinars to 2,632 million dinars between 1991 and 1997 (Klai and Omri, 2011; Naceur and Goaied, 2002). These reforms aimed to renew the stock market and to hasten development and to attract investors to the market. The Tunisian Stock Exchange was upgraded to be in accord with international standards in 1994 (Loukil et al., 2010). In this market, positive pictures of investment and minority shareholder protection are apparent.

The Tunisian financial market has been mainly driven by an automated system (without market makers) since 1996 (Hmaied et al., 2006). From that time transferring the Tunisian market from manual trading to automated trading has happened gradually (Sioud and Hmaied, 2003). Furthermore, this market is considered to have been the first Arab market to have accepted the SUPERCAC UNIX technology (Loukil et al., 2010; Sioud and YounÈs, 2010). Introduction of the electronic system for transactions and IFRS are considered to have been important steps forward for the Tunisian market (Ben Naceur et al., 2006). In the market trading volume has importantly increased after the adoption of the automatic trading system (Loukil et al., 2010; Sioud and Mezzez Hmaied, 2003). Development of security markets has been done by the deregulation of the financial sector. Compared to other MENA countries financial development in Tunisia has been somewhat faster and more complete (Mehdi, 2007).

Despite these reforms and improvements, some negative factors cloud the financial market. For a long period the delay of economic growth may have been because of weak finance in Tunisia. With market liberalisation, the banking sector has not been able to meet the needs of firms facing strong international competition (Sioud and Hmaied, 2003). Although Tunisia has achieved developments, some challenges must be faced (Mehdi, 2007). Despite the reforms, the rate of growth in the number of listed firms on the market has not been high (from 34 companies in 1998 to 48 companies in 2006). The Tunisian market is not strongly flexible compared to markets in developed countries (Loukil et al., 2010). It has been argued that ownership structures of some Tunisian Stock Exchange companies have not been transparent (Ben Naceur et al., 2006). It is also noted that there are some limitations placed upon foreign investors such as limitations on ownership (Tunisia, 2010).

Some rules should be followed in the Tunisian financial market. Two pressures on Tunisian companies have appeared. Initially, the firm law legally determined the framework that Tunisian firms had to abide by. Secondly, the listing requirements were also applied to all listed companies on the Stock Exchange. For example, firms had to comply with *The Financial Act 94-117*, The Securities Commission regulations, *The Commercial Code* and *The Tunisian Stock Exchange Code* (Mehdi, 2007). *The Investment Incentives Law* was adopted for the Tunisian Stock Exchange in January 1994 to help foreign investors in terms of providing a broad range of incentives (Tunisia, 2010). In the USA, the Securities and Exchange Commission (SEC) was created to organise the market. Similarly, in Tunisia, the Financial Market Council (CMF) was established (Loukil et al., 2010; Sioud and Hmaied, 2003). In addition, over the last few years, significant progress has been made in the direction of improving the quality of company governance in Tunisia. At the end of 2005 a new draft law (on financial and accounting disclosure information) was adopted by the then government, which is similar to the Sarbanes-Oxley Act (SOX) (Mehdi, 2007). Indeed, listed companies have been controlled by many laws in the market.

Tunisian regulators in the future (post-The Arab Spring) are likely to emphasise the need for disclosing reliable information by listed companies (Klai and Omri 2011). In reality, investors rely on financial information in making their decisions on the stock exchange market (Klai and Omri, 2011). Klai and Omri (2011) note that the Tunisian Stock Exchange is capable of attracting foreign investors. This will motivate companies to enhance the quality of their financial reporting. Furthermore, the former government attempted to reorganise the market by reducing company income tax (from 35% to 20%) for a period of five years for new listed companies. Foreign investors were freely able and without restriction to buy to a maximum of 50% shares of listed or unlisted Tunisian companies. In fact, in the Tunisian stock market, foreign investors received many benefits under the former regime. For example, they were not taxed (Loukil et al., 2010).

5 Conclusions

The present study has compared the contextual factors (culture, political, legal, economic system, and stock exchanges) in three North Africa countries (Egypt, Morocco, and Tunisia). The contextual factors of these countries are very similar being Islamic culture and French law. These countries have similarities in their recent histories. They were occupied by European countries which resulted in English and French languages being spoken in this region. Dictatorial governments (regardless of the types of governments – socialist or otherwise) have also controlled these countries for considerable periods of time since independence. In line with international society, an Openness Policy has been adopted and many reforms have been made in the stock exchange of these countries. However, much work remains to be done. Although contextual factors are similar, each country is in a slightly different place today in regards economic and capital markets' development. Of the three countries surveyed we might tentatively conclude that Tunisia is furthest advanced in its capital markets and accounting reforms while Morocco is last and Egypt is somewhere in the middle. Policy makers can learn from the experiences of these three NA countries as the obstacles and backgrounds of these three countries are similar. This is the first accounting paper of which we are aware that has studied these three NA countries.

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