The title of this paper “From Inherited Wealth To Productive Economy” conveys the change that needs to take place within Libya as it stands poised to engage upon a process of long-term economic planning in the wake of the country’s civil war. It consists essentially of a move away from an economy that has relied overwhelmingly on oil revenues within a system that, however had few, if any, national political institutions to guide development--to a new state where political and economic institutions jointly combine in a more inclusive and integrated fashion to provide for economic growth and development.

Almost 18 months after the end of the conflict, the country struggles in defining the long-term economic future of the country. The paper entitled “Libya – Post war challenges” (AfDB, 2011) had pointed out that one of the country’s major difficulties would be to avoid the recreation of the patronage patterns of the previous regime, i.e. the use of the country’s resources in a distributive fashion that adds little to the overall capacity of the economy to stimulate long-term growth and development. The country’s first budget in the wake of the civil war, as well as the hand-outs to thuwar (those who fought against the former regime), to those who were political prisoners during the previous regime, and to the population at large, indicate the difficulties oil states have in avoiding (no matter how well intentioned) the use of economic hand-outs for pursuing temporary political goals.

Despite the attention that was given to the country’s economic future during the civil war, much of that early interest waned or vanished as the realities of economic reconstruction and of alleviating the legacies of the civil war surfaced. It is not surprising that in an environment where reconstruction needs are high and where the capacity of the national authorities is still proving highly unequal to the number and to the diversity of the challenges it faces, long-term planning has, at least temporarily, been put on the back burner. Even the assistance of bilateral and multilateral institutions until now has primarily focused on short- and medium-term solutions.

Libyan authorities since 1969 paid little attention to systematic planning for economic growth and development of the country, fueled in part by the...
perception that the country’s mineral wealth would provide a virtually inexhaustible source of income for future generations. The Libyan government either directly or indirectly, controlled the majority of enterprises and assets in the country—amassing a large number of badly performing industries, financial institutions, and real estate. It controlled, among other assets, 360 State Owned Enterprises (SOEs) and five of the country’s six commercial banks.

The urgency of a growth, development, and reform strategy for the Libyan economy in the wake of the country’s revolution is brought home, however, by the fact that with unchanged fiscal policies Libya’s current spending trends will severely erode the country’s wealth, leading to credible scenarios whereby public spending may lead to sustained budget balance deficits from 2015 onward. At current spending rates, these scenarios will take place even if hydrocarbon prices remain high, and assuming that neither an extended European nor a global crisis add further to Libya’s challenges.

By means of contextual background, it is important to point out that Libya faces two distinct but interrelated sets of difficulties in designing a long-term, integrated plan for its development:

1) The longstanding and protracted economic inefficiencies and bottlenecks that materialized when Libya emerged as a typical oil exporter since the early 1960s. The paper entitled “Libya: Post War Challenges” elaborated on those “rentier” pathologies: high levels of regulatory deficiencies, pervasive rent-seeking, incoherent and low levels of economic regulation, a dualistic economy, a non-transparent business environment, incoherent economic policies, state dominance that resulted in wholesale directives but little regulation of the economy, inadequate employment policies, obstacles to private entrepreneurship, weak legal statutes, and the neglect of certain sectors within the national economy.

2) Larger “political economy” issues (at the interface of state-society relations) that impinge crucially on the ability of economic planners to implement whatever long-term planning emerges: issues of extensive patronage, intermediation and corruption, high levels of state autonomy, low levels of regulation, and the fragmentation of society that raises problems of trust, personal initiative-taking, and legitimacy within Libya. It was particularly this second set of constraints (and not the purely economic challenges) that doomed the attempted reforms after 2003.

Although the socio-political context for economic reforms in Libya is more promising after the revolution, it is important to note that there remain large hurdles to economic reform that are unlikely to be completely resolved during the period of planning and reform this paper concentrates on. Of these, security and order is the main concern: efforts to attract foreign and domestic investment and to implement economic directives will founder unless the Libyan government possesses the ability to provide sustained security and the ability to enforce the rule of law. But developing such institutional and regulatory capabilities usually takes years as well, and cannot be expected to emerge overnight.

Until the recent civil war, planning Libya’s future was at best a haphazard enterprise. Concerns about efficiency and diversification were lost in a host of political, ideological and security concerns that doomed systematic planning. It was not until the realities of the condition of the country’s economy—together with a desire to reintegrate the country within the international community after decades of sanctions and ostracism had taken their toll—that Libya considered a more systematic approach for growth and development. The publication of the Monitor Group’s report in 2006—National Economic Strategy: An Assessment of the Competitiveness of the Libyan Arab Jamahiriya—by the General Planning Council of Libya, and the appointment of a new Prime Minister, represented the first attempt at long-term planning and led to the adoption of some measures previously described (see Appendix A). The Monitor Group report at the time deftly summarized the country’s existing difficulties and the challenges ahead:

“The New Economic Strategy Project aims to move Libya from a distributive economy with under-developed institutions to a unique mixed economy model that balances market mechanisms with the values [of the Green Book]... The government has a major role to play: creating political and legal stability, an efficient basic infrastructure and strengthening both the macroeconomic and microeconomic environment for private enterprise to prosper. This will be a critical issue in the Jamahiriya, where state legal and regulatory institutions traditionally have been weak.”

The Prime Minister’s own evaluation at the time mirrored the concerns expressed in the New Economic Strategy report:

“The strategies and initiatives that we are taking... [are] trying [to create] a new and comprehensive architecture for the national economy...
[which includes] a lot of incentives to foreign investors, such as tax exemptions in the first few years, a major cut in corporate taxes, establishing a free zone in Misurata [Misrata] and opening the capital of public companies for foreign investors... [and] to cut down mismanagement and corruption and of course bureaucracy.”

The IMF reports issued in mid-2012 mirrored almost verbatim the concerns it had expressed almost a decade earlier, indicating how little had actually changed in the intervening years:

"In the short term, the authorities must restore security, bring hydrocarbon production fully online, exercise fiscal discipline, resuscitate the banking system, and maintain macroeconomic stability... medium-term efforts should focus on capacity building, infrastructure renewal, private-sector development, improving education, job creation... within a framework of transparent and accountable governance.3"

A successful economic development plan for Libya must address this combination of physical as well as institutional, regulatory deficiencies and the larger surrounding social and political issues in a comprehensive and integrated fashion. Governments, under a host of social, political and cultural constraints, almost inevitably make "satisficing", sub-optimal decisions that reflect in part non-economic expediencies. Particularly in oil states these sub-optimal solutions can be ignored for long periods of time-as Libya, in an extreme fashion, demonstrated for half a century.

One of the biggest challenges of Libya’s planners will be precisely to avoid this reliance on easy and sub-optimal solutions as the country’s oil revenues recover. As the National Economic Strategy stated in 2006, reform in oil exporters where patronage patterns are prevalent are as much a political and social challenge as an economic one:

"... there is typically resistance to change from those who benefit from the distribution of revenues from natural resources such as oil, import licenses and other government-granted privileges. On the other hand, those in government may also be wary of economic reform, knowing it will create new power centers in civil society which do not depend on government patronage.4"

It is important as well to note that in advocating reform, the state may face an amount of resistance from ordinary Libyans as well who have either become accustomed to the distributive nature of economic governance under the previous regime--and prefer this to the uncertainty a shift toward private property and greater reliance on markets may entail under economic reform--or whose memory of the introduction of a greater reliance on the private sector after 2003 remains tainted by the inequities it produced.

It is finally equally important, to point out that despite the difficulties emphasized in this report, and while Libya shows many of the characteristics of a typical oil exporter, it also has some unique economic and non-economic attributes that can provide a lift to its planning and diversification efforts. Among those are an unrivaled set of archaeological sites that can help promote a long neglected tourist industry; a geographical location on the southern shores of the Mediterranean attractive for free zone and harbor development; and a location between Europe and sub-Saharan Africa that can make the country into an important transit trade area. In addition, Libya has so far been blessed in its post-civil war period by a leadership that both understands the economic challenges the country faces, and has eagerly embraced international advice and expertise.

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3 See in particular IMF, Libya Beyond the Revolution: Challenges and Opportunities (Washington D.C., 2012) and Libya--Staff Visit, Concluding Statement (May 2012).
4 So far the new Libyan authorities have used small-scale patronage for essentially politically stabilizing purposes; whether those become once more structurally embedded within Libya’s economy is still undetermined at this point.
Box 1: Characteristics and future drivers of Libya's economy

Even though Libya's economic reform and liberalization efforts between 2003 and 2010 introduced a number of significant changes, for planning purposes Libya's rulers at the end of the civil war faced an economy whose characteristics remained those of a non-diversified, inefficient oil exporter whose strengths and weaknesses can be summarized as follows:

Resources
- Rich endowment of hydrocarbon natural resources
- Substantial accumulated capital reserves
- Abundance of human capital, but few with needed skills, high unemployment

Institutional development
- Low levels of regulation
- Low levels of accountability / transparency / rule of law

State management and state/private sector relations
- Weak economic guidance
- Inefficient state management
- Low levels of private enterprise
- Traditional distrust of private entrepreneurs

Business climate
- Lack of business environment conducive to foreign participation
- Unpredictable legal and investment climate
- Low use of regional and international expertise beyond the energy sector
- Lack of foreign participation outside the energy sector
- Lack of access to experts and expertise

Sectoral
- Low levels of economic diversification
- Low efficiency outside hydrocarbon sector
- Low level of upstream/downstream activity in hydrocarbon sector
- Undeveloped tourist sector despite major attractions
- Lagging sectors: healthcare, education, urban planning, agriculture, transit trade, construction
- Weak banking system
- High level of informal economic activities in several sectors

Geography
- Important geographical transit location between Europe and sub-Saharan Africa
- Important geographical location for trans-Maghrebi and Maghrebi-Arab trade
II. Planning for Development in Libya

The remainder of this paper focuses primarily on the longer term institutional and sectoral strategies Libya needs to adopt in its quest for a sustainable and diversified economy, and on the larger transformations and measures needed for an economic plan to contribute effectively to the country’s chances at growth and development. It ignores most of the “short term” efforts institutions have accentuated—reflected in the quotation above—as well as some non-economic factors—such as the normalization of the security situation in the country and the country’s political transition—that are necessary to implement what Rodrik and others have called the “hard constraints” of development that are indispensable to create the prerequisites for a sustainable economy.

The immediate, technical aspects of these kinds of institution-building measures for greater regulation have been studied in great detail, are relatively non-controversial, and have been conveyed to Libya on a regular basis by the international financial institutions.

This paper also leaves out specific recommendations for the country’s oil sector institutions which, as privileged islands of efficiency within the Libyan economy, have been ably managed by a technocratic team at the National Oil Company. After a severe contraction in 2011, in April 2012 crude oil output reached 90 percent of pre-conflict levels, and returned to pre-war levels by the fall of 2012. Oil revenues, which constituted 95 percent of the country’s exports and provided 90 percent of government revenues at the eve of the civil war, will remain at these levels for at least a decade in terms of contribution to the economy. While non-hydrocarbon activity contracted substantially during the civil war and will take some time to recover, it will need to play a crucial role if Libya is to exit from its essentially non-productive status into a more productive economy.

Comme dans tous les pays où de telles transformations (passage d’une situation d’État rentier à une économie productive) sont envisagées, l’essentiel de la lutte initiale pour la gestion de l’économie doit se focaliser sur l’aptitude de l’État à développer la capacité réglementaire nécessaire pour orienter la planification économique. En outre, l’on note une certaine contradiction : si l’État doit jouer un rôle important d’intermédiaire au départ, il doit aussi se désengager à plus long terme, afin de libérer l’énergie entrepreneuriale et la laisser aux mains de ses citoyens. Un tel désengagement, après des périodes intenses de réglementation est toujours difficile, pour un certain nombre de raisons essentiellement d’ordre politique.

As in all countries where such economic transformations—from inherited wealth to productive economy—are envisioned, much of the initial struggle over economic management must focus on the ability for the state to develop the necessary regulatory muscle to guide economic planning. In addition, there is somewhat of a contradiction: while the state will need to play an important intermediary role initially, it must withdraw in the longer run in order to release entrepreneurial energy into the hands of its citizens. Such withdrawals, after intense periods of regulation are, for a number of essentially political reasons, always difficult.

Libya in terms of institutionalization and regulation faces unique difficulties: its state structures and bureaucracies have traditionally possessed very little power or regulatory capacity. Second, the presence of large amounts of oil-generated revenues often makes efficiency and reform seem less urgent in countries like Libya. Finally, state elites, particularly in oil exporters like Libya where access points to the economy are concentrated and a ready source of patronage, often find it difficult to hand down power or create access for small entrepreneurs. Particularly in Libya, measures adopted for economic reform and development must be encased within a host of supportive administrative, legal, bureaucratic, and regulatory activity that makes such economic reform and development possible and de-politicizes its environment.

As an oil economy, Libya’s development dilemmas are concentrated around a set of economic dualities. The first is an economy characterized by a high value but low employment energy sector, combined with a low value but high employment non-energy sector. Second, Libya’s economy possesses very low levels of economic regulation, and has weak bases for regulatory intervention.

The country’s major challenge is to turn both realities around: to become a productive economy where different sectors contribute efficiently and productively to overall economic growth and development, with adequate—but not overwhelming—regulation provided by the state to optimize the chances at development.

To become such a productive economy that is capable, among other elements, of putting its burgeoning young population to work and of competing internationally with goods and services locally produced, Libyan planners need to address a set of tasks that address and reform its economy.

These tasks can be grouped into three major areas of needed reforms, each containing several subsidiary elements that stretch across all areas and sectors:

1. Upgrade the capability and capacity of the state and its institutions to more effectively regulate and guide reform and development efforts.

2. Recalibrate the roles the public and private sector play in the country’s development; selectively withdraw the state’s presence over time from the actual management of the non-oil sectors and from its traditional role as provider of distributive largesse, and provide greater support for non-oil economic growth.

3. Provide guidance and support to a host of non-economic measures that underpin and provide legitimacy to the state’s overall economic development strategies.

1. **Upgrade the state’s regulatory capabilities**

What the state knows determines its range of options and its ability and effectiveness devising, regulating, and implementing economic directives.

Libya will need to dramatically improve its “knowledge level” if it is to succeed in successfully reforming and developing an economy that had deliberately developed information gaps during the former regime. As detailed below, however, Libyan policymakers fortunately understand these longstanding deficiencies and are willing to seek expertise in addressing them.

One of the policy priorities of the Libyan state will be to fill this knowledge gap, and to move the country away from its overly centralized procedures in order to help establish and promote the growth of the country’s private sector after decades of mismanagement and weak investment. Keeping in mind, however, the domineering (but ineffective) role it played in the past, the state will need to walk a tightrope: providing enough legal and regulatory guidance while creating enough space for independent initiatives to succeed.

One of the most basic issues remains the profusion of often contradictory laws that need to be reconciled at the national level. As of yet, Libya

**The paper “Libya : Post War Challenges “ had summarized the steps Libya had gingerly taken toward greater regulation after 2003. It is quite clear, however, that the legal and regulatory environment—particularly to provide a stable legal framework for both domestic and foreign investment and to provide greater transparency and more robust measures for accountability—remains undeveloped or weak. According to World Bank cross-country governance indicators, Libya continues to rank very low on various aspects of governance, including rule of law, corruption, government effectiveness, regulatory quality, and accountability and transparency. Many of these weaknesses were pointed out during the country’s civil war as the Dubai-based Stabilization Team made a first attempt at thinking about post-civil war development, but they were not addressed at the end of the civil war.**

One of the policy priorities of the Libyan state will be to fill this knowledge gap, and to move the country away from its overly centralized procedures in order to help establish and promote the growth of the country’s private sector after decades of mismanagement and weak investment. Keeping in mind, however, the domineering (but ineffective) role it played in the past, the state will need to walk a tightrope: providing enough legal and regulatory guidance while creating enough space for independent initiatives to succeed.

How this is calibrated will be, in light of the country’s institutional weaknesses and its ongoing political upheaval, one of the most difficult challenges Libya’s planners will face. While there is a need for the Libyan state to withdraw from certain parts of the economy where the private sector can perform better, before Libya’s planners can become an effective “hand on the tiller” for guiding development in the private and public sectors alike, both improved knowledge and improved methods for regulation and for the implementation of decisions are needed.
does not have a comprehensive data base that can be used as a basis for the efficient implementation of laws and regulations at all levels of government. Both the legal frameworks pertaining to small and medium enterprises and for domestic private sector development remain insufficient. The result has been that a substantial amount of domestic private sector activity continues to take place in the informal economy which is estimated to represent as much as 30-40% of the country’s official GDP.

Laws on both foreign investment (#5/1997) and on property rights (originally Laws #4 and #7/1978) have been amended to encourage investment. There remain contradictions, however, in the law that prohibits the expropriation of private property--an issue Libya’s Constitutional Assembly will need to address to provide greater confidence among both local and international investors alike. Start-up companies still face considerable hurdles even though commercial and labor codes were relaxed after 2003.

As the IMF has pointed out after one of its most recent visits, this confusion is reflected as well in the country’s public financial management where lack of accountability and lack of transparency continue. Budget formulation remains weak and fragmented:

"Libya would benefit from introducing reforms focused on ensuring a unified budget process... strengthening the policy context of budgeting, and adopting a comprehensive and transparent budget presentation. To increase transparency and accountability and better inform economic policymaking, reforms should focus on developing and implementing an internationally accepted budget classification and it’s associated chart of accounts, which would improve the comprehensiveness, reliability, and timeliness of budgetary information."  

Not surprisingly, most analysts of the Libyan economy focus in particular on the weakness of the country’s administrative infrastructure, and on the high barriers to competitiveness. Among several indicators of administrative weakness, Libya ranks particularly low in overcoming hurdles to implementation of economic decisions and in reducing bureaucratic red tape: for several years Libya ranked the lowest on this particular measure of all the countries the World Bank includes in its Governance Indicators. Barriers to new business formation still prevail, including complicated visa application procedures for business visitors that continue until today. Extensive delays for FDI applications routinely take several months to resolve. Entrepreneurship remains a precarious pursuit: obtaining the necessary permits can still take up to three months and does not guarantee access to sufficient financing on terms small businesses can afford. Although the post-civil war environment has reduced the unpredictability in administrative and policy-making structures that were common during the former regime, the overall administrative quality leaves much to be desired.

This is particularly worrisome since Libya needs targeted foreign direct investment, particularly to upgrade the almost non-existing professional sophistication of local companies that can have important spillover effects within different sectors of the economy. In contrast to some of its neighbors, Libya has only gingerly proceeded, for example, on the creation of special economic zones (SEZs) where such specialized investment serves as a tool to incubate businesses, where planners can learn from changes in the regulatory environment that govern businesses in a limited part of the economy, and that can lead to important spillovers within the larger economy. Similarly, countries at Libya’s level of development have often sought FDI for clustering--developing linkages between groups of companies, service providers, suppliers, and associate institutions that are needed for development. Although both SEZs and clustering were mentioned in Monitor’s National Economic Strategy, they were never seriously considered and lost their focus as the civil war started. Nevertheless, they are important development concepts Libya may want to reconsider.

Investment relies on a predictable and clearly defined legal and institutional framework, and on a positive business climate that encourages foreign involvement. While minimum investment thresholds have been reduced to $1 million (from a previous $50 million), and while Libya remains an attractive place for potential investment--albeit heavily skewed toward the hydrocarbon sector--investors remain weary in light of the country’s weak legal framework for investment, extensive bureaucracy, and persistent corruption. The government will need to create not only mechanisms to offset these debilitating factors, but also devise ways to channel FDI more effectively toward the non-hydrocarbon sectors. Part of this will involve the creation or strengthening of an administrative infrastructure that is nimble enough to help identify and nurture promising ventures. But, as pointed out previously, Libya’s success in trying to lay the foundation of such a knowledge-intensive infrastructure remains highly problematic until today.

At the same time Libya must provide greater regulation to continue relaxing the stranglehold state bureaucracies have traditionally had in

6 IMF, Libya Staff Visit, Concluding Statement, 4 May 2012.
imposing regulations that slow down the creation of new enterprises, and must help reduce the time-consuming process now required for start-up businesses. As part of this the government should expand the "one-stop shop" for registering and setting up businesses that emerged during Libya's liberalization efforts after 2003 but have faltered since.

An emerging private sector in Libya furthermore will need to rely on a efficient banking and financial sector that can support it. Libya’s financial system can be made more dynamic, partly by better regulation, but also in part by continuing to open up the banking sector to private investment. One of the keystones of such an infrastructure in Libya will need to concentrate on providing access to high quality financial services and to capital. In a country where the overall quality of financial markets has been dismal and equity markets are barely emerging, and despite the adoption of a Banking Law in January 2005 that followed IMF recommendations, the banking sector in Libya has been burdened until recently with little access to payments systems or to modern financial products that have become standard even in less developed economies.

Reforms in the wake of the civil war have separated the Central Bank of Libya’s (CBL) previous ownership and supervisory functions with regard to the country’s commercial banks. But overall the banking sector in Libya remains underdeveloped, facing substantial challenges from specialized credit institutions. There are, however, some positive developments: partial privatization has taken place, involving foreign partners in 6 out of 16 existing commercial banks. Even though much of the country’s banking system remains under the control of the government, the CBL has actively encouraged banks to modernize their commercial operations, to upgrade their human resources and IT systems, and to actively encourage foreign partnerships. The CBL also continues to promote the removal of lingering impediments to credit, particularly to small and medium-sized enterprises.

In all of this, developing more incisive regulatory frameworks--covering not only the banking industry but also the country’s investment vehicles such as the Libyan Investment Authority, and the country’s oil reserves funds-- will provide greater financial stability and long-term growth. Finally, what Libya ultimately needs in order to continue improving its knowledge level and regulatory capability is an independent agency--or set of agencies--that gather and report data that can then be used for informed decision-making, leading to more efficient implementation of decisions. The recent creation of a national statistics agency has been a positive step forward. In all of these ventures, international expertise will remain a sine qua non for Libya in the years ahead, a reality Libyans embrace.

2. Recalibrating the roles of public and private sector

As outlined above, Libya since 1969 relied almost exclusively on state-guided, top-down directives that showed little concern for either efficiency or for sustained growth. Guided by the stipulations of the Green Book, the role of the private sector as an engine of economic growth and development remained heavily curtailed until 2003 when the regime gingerly allowed some private economic activity to emerge. Despite this, much damage had been done, not only in regard to lost opportunities in making the private sector a viable partner in development, but also in terms of the deep distrust that was created between the state and Libyan entrepreneurs, and in instilling in many Libyans a work ethic that eschews productive employment.

Libya’s dual challenge is to make the public sector more efficient and productive while reducing its overall size and contribution to the national economy in favor of greater private sector involvement. Both are formidable challenges, and are at the core of meaningful reform of Libya’s economy. Despite its inability to provide real advancement or being seen as particularly lucrative, the public sector remains attractive for providing job security and for its often considerable non-wage benefits. This attractiveness of public employment has skewed the educational choices young Libyans make as they prepare for work life.

In considering public sector and civil service rationalization, Libyan decision makers have several options at their disposal, ranging from hiring freezes and natural attrition to adjustment of wages and benefits and to actual retrenchment through layoffs. In all cases, as mentioned below, the government should ensure that an adequate safety net is in place.

A. Supporting private sector development in a transparent manner

Encouraging the non-oil sector

In encouraging economic growth outside the oil sector, Libyan planners, should help provide a legal framework that promises greater access to finance for small and medium-sized businesses. They should as well make efforts to further remove the red tape and bureaucratic inertia that have made Libya one of the least attractive countries worldwide to invest in beyond the oil sector. And they should propose the kind of legal framework that further encourages foreign and local investment in the non-oil sector, offering incentives in particular to enterprises that create employment.
Part of these incentives, particularly during the early years of reform, can involve provision of seed funding--either through outright grants or, preferably, through low interest loans. In addition the state can provide ancillary instruments, such as loan insurance and targeted access to government-provided expertise and business development services, for entrepreneurs. Related to this is the need for a new bankruptcy law in Libya that would de-criminalize bankruptcy to help reduce risk and to promote entrepreneurship.

A quick overview of a select few different sectors pinpoint both the opportunities and challenges Libya faces. Virtually all of Libya’s informal workforce is concentrated in the country’s construction, agriculture, and retail trade sector, indicative of the secondary role it has played so far.

The construction sector has traditionally faced considerable problems: lack of access to capital, lack of skills and equipment, a difficult regulatory environment, and lack of basic supply inputs like steel and cement. As opposed to several of its neighbors, Libya has no major national construction companies. In addition, the absence of foreign companies--except for major prestige projects--and the lingering uncertainties over land ownership continue to make it difficult for Libya to seriously address, for example, a notorious shortage of public housing. Furthermore, administrative difficulties lead to bottlenecks even in the hiring of blue collar labor--a difficulty the National General Congress is currently trying to remedy.

Until the mid-1960s, agriculture and livestock were important parts of the country’s economy, and continued to receive generous subsidies under the previous regime in a somewhat quixotic search for food self-sufficiency. The Great Mannmade River Project, although originally intended for providing drinking water to the country’s cities, was increasingly diverted in part to provide water to the agricultural sector. Despite massive subsidies and investment, particularly in irrigation, the growth of Libya’s agricultural sector has, since the early 1990s, been consistently substantially below population growth. Input factors remain scarce and expensive, and there are severe limitations on the physical resources--arable land and rainfall among others--that make the future of Libya’s agricultural sector one of the country’s planners’ greatest conundrums in the years ahead. Libya needs a comprehensive plan for its agricultural sector that, among several other sensitive issues, must decide whether some of the goals of the past, including food sufficiency, are in the best economic interest of the country as a whole--and, if not, what other alternatives exist, and how much of the sector’s informal economy workers can be redeployed.

Libya’s tourist sector is invariably mentioned as one of the country’s greatest potential assets in light of its rich cultural heritage and close access to the European market. Until now Libya has accommodated roughly 300,000 visitors annually, a mere.5% of all tourists visiting the Middle East and North Africa region--an outcome of hostility toward the sector under the previous regime. Its Tourism Investment and Development Board proved particularly powerless. Libya’s tourist infrastructure is virtually non-existing, and few attempts have been made to upgrade the sector. With a wealth of archaeological sites scattered over a wide geographical area, Libya must decide which constitute a priority and what resources it is willing to developing the sector. Tourism, with its labor-intensive focus, can provide sustainable employment for Libyans and has normally large employment multiplier effects. Substantial training will be necessary, as well as the elaboration of clearer rules for investment, and the provision of mechanisms for making capital available to entrepreneurs. The ‘fast-track’ of visa processing that was gingerly implemented during the later years of the previous regime will need to be extended and the visa processing bureaucracy improved. Preferable, as in some neighboring countries, the government can adopt legislation that allows for tourist visas to be extended upon arrival.

Both the country’s physical infrastructure and its information technology infrastructure (ITI) need as well to be substantially upgraded. Its physical infrastructure was never part of larger, integrated planning efforts during the previous regime and, as result, shows an incoherence that needs to be urgently addressed--particularly transport and communication links. Air transport quality as well as port infrastructure--the latter crucial if Libya wants to pursue harbor-linked special economic zones and transit trade--must be substantially upgraded or, in some cases, constructed new. Libya’s telecommunications networks remain fragmented and poor, despite a number of recent initiatives in the wake of the civil war that promise greater coherence if implemented. While the country’s dispersed population, the enormous physical size of Libya and a host of other physical infrastructure defects (described above) will make building an adequate set of IT networks extremely expensive, it should be one of the country’s priorities since it will constitute an indispensable basis for inputs into other sectors. Further investments by the government, incentives for carriers and industry firms, as well as more unified regulatory measures are urgently needed.

In all sectors, a combination and careful calibration of providing a greater and more consistent regulatory environment, together with government incentives, upgrading of each sector’s infrastructure, and an eventual reduction of the state presence in each sector will be necessary to achieve optimal results.
Ownership and foreign participation in economic enterprises

A related issue concerns the role foreign-owned companies and foreign direct investment will play in Libya’s economic future. While foreign investment may have the salutary benefit of forcing national companies to become more competitive and of delivering needed investment quickly, it could also quickly crowd out Libya’s still relatively weak domestic private sector. Since this represents a sovereignty issue of particular sensitivity to Libya, its planners should opt for a solution that leaves national ownership in the hands of Libyans through majority domestic ownership, leaving foreign firms to establish agency agreements with local companies. In all of this Libya will need to ascertain that these kinds of protections through agency requirements do not push local firms toward rent-seeking rather than engage upon actual productive activities.

Privatization of state assets

A further measure involves the actual handing over of state assets to the private sector and to individuals or groups of individuals. As in other countries that have moved from state-dominated economies toward more mixed economies, handing over state assets in the process, there are two mechanisms that can be considered: (a) gradually handing over state-owned enterprises to the private sector and individuals, and (b) outright sales of state property. Both, if carefully executed, can help trigger private sector development. But in Libya, in part because of the expropriation of private property during the previous regime, issues of ownership over state property—particularly real estate and land that was taken by the state—will considerably muddy the debate. Unless and until clear rules and regulations are in place, there is a continuing danger that much of the privatized assets could be recaptured by some of the patronage circles that existed under the previous regime.

Developing Public Private Partnerships

Another mechanism Libya should consider is to open up to the private sector areas that have traditionally been considered as the exclusive realm of the public sector: so-called public goods like roads, electricity, hospitals, telecommunications, and public housing. Particularly considering how badly public goods were provided and maintained in Libya, the private sector can play a constructive role either by itself or through public-private partnerships.

In all of these areas where the state is reducing its economic presence—whether through partial or full privatization or by contracting out certain services or public good—it is important that its initiatives are transparent to the public. Particularly in a country where favoritism and patronage were so pronounced for decades and where distrust of state-driven policies is very high, policymakers must make clear that ultimately public interest considerations are driving the process, and that state assets will not simply end up in the hands of small groups of individuals or business groups.

B. Social protection systems which support employment generation

Safety net

Nevertheless, no matter how efficient and transparent the move toward a greater role for the private sector is, there will inevitably be bottlenecks and competing alternatives the state will need to address. In this regard it is imperative that Libyan planners carefully think through a robust safety net that is seen as fair and equitable by both entrepreneurs and by those who do not have the skills to seek employment in private sector enterprises or prefer public sector employment.

Although the safety net under the previous regime was admittedly of low quality and often minimal, it was comprehensive and created both a sense of security and entitlement Libya’s planners cannot ignore. Employment in the public sector remains highly attractive to many Libyans because of the security it provides. In addition, the turn toward an economy where the private sector plays a larger role inevitably introduces greater risks for those who are part of it and who may need safety protections to fall back on in case of failure. The first part of a future safety net should target specifically the basic economic needs of poorer families through fee waivers, additional food programs and, if needed, cash transfers. For private sector workers and government employees, Libya should consider the introduction of unemployment insurance, funded in part by regular contributions for possible future unemployment, and of a pension system that covers both the private and the public sector.

Reducing state subsidies

Although politically highly sensitive—so sensitive in fact that even the former regime proved loath to tinker with it—Libya’s system of extensive subsidies of basic food stuff, fuel, and electricity, among others, is unsustainable. Accounting for roughly 13.3 percent of GDP in 2012, subsidies are at the heart of the IMF’s warning that Libya’s spending patterns will lead to sustained budget deficits from 2015 onward. In addition to creating entitlements, they have generated in Libya a lucrative opportunity for black market profiteers, and further reduce incentives to help create a private sector in the country. In addition, Libya’s subsidies are untargeted: they profit those who do not need them as much as those for whom assistance is necessary. Alternatives should be carefully considered; although cash...
payments targeted toward the poor, for example, are often considered a viable alternative, they often prove difficult to design since the data needed for efficient implementation is still lacking in Libya.

**New targets and distribution mechanisms for oil revenues**

Traditionally, oil revenues accrued centrally to the previous regime, without credible mechanisms to provide accountability or transparency. Used as a device to promote regime security, the emphasis on pure, centrally-controlled distribution—primarily through public sector employment and extensive subsidies—instituted a form of dependency that will prove difficult to dislodge since (relative) state largesse has become a fact of life.

In addition to reducing the scale of rapid distributive mechanisms that are politically expedient—of which government employment and subsidies are the most prominent—Libyan policy makers should consider subsidies that, rather than continuing consumption of government hand-outs, provide incentives to Libyans to help contribute to the growth and development of the country’s economy. Investing heavily in educational opportunities, for example, provides a much larger development pay-off in the long run than simple consumption, and supports a group of citizens that will be a long-term source of future income for the country.

**C. Changing the employment dynamics**

In light of the urgency to provide meaningful employment for Libya’s growing unemployed or underemployed—including the country’s current militias—a quick overview of the country’s labor market highlights the difficulties the country’s decision makers face:

- Hydrocarbons account for roughly 60% of Libya’s GDP but employs only 3% of the country’s population.
- Libya’s non-hydrocarbon sectors employ 97% of the country’s formal workforce but contribute only 40% of the country’s GDP.
- The country’s public services employ 70% of the formal workforce, but education, healthcare and other services contribute only 9% to GDP.

**Reducing public sector employment**

Until Libya’s revolution in 2011, the extent and the role of the country’s public sector employment in the Libyan economy was therefore overwhelming. In many ways the state in Libya still remains the employer of first and last resort. As mentioned above, an estimated 65-70% of Libya’s workforce traditionally relied on government or public sector employment, a number that skyrocketed to 80% during the civil war as a result of financial incentives offered by the previous regime. The government wage bill for this provision routinely constitutes one fifth of the country’s GDP. The public sector needs to shed at least 400,000 workers to achieve a modicum of efficiency while overall unemployment in 2010 was estimated at 26 percent.

In addition the public sector workforce is not well allocated and focuses on low value activities. Indeed, while more than 50% of the formal workforce is employed in healthcare, education, other public services—areas are marked by high levels of overemployment.

The World Bank estimates in 2004 put the average annual growth in the productivity of labor in the non-oil sector at minus 2%, with negative productivity in manufacturing, agriculture and services since the mid-1990s. There is no evidence so far to suggest that this lag in productivity has changed. It is furthermore clear that Libya’s public sector and their civil services have reached their limit in providing employment, and that much of the country’s future job creation will depend on private sector employment.

**Revising labor and employment code**

At the most elementary level, Libya needs a new legal framework that will provide private sector firms with sufficient regulatory guidance while providing enough flexibility to establish start-up businesses. One specific area where regulation is urgently needed is the country’s labor market. During the former regime the state maintained very tight control over private sector hiring, dismissal, and wage decisions.

A new Libyan labor law should clearly address these issues, giving the right to employers to make decisions related to wages and hiring/firing/promoting of employees. This is particularly important in an economic climate where start-up firms will inevitably face a good deal of uncertainty, but it is also crucial to provide incentives for worker productivity. The new labor law will need to include provisions that do away with the automatic permanent contract provisions that were once the norm, and will need to guard against excessive mandate payments for severance and for minimum payments. Much of the regulatory energy in the labor market should be left to independent labor organizations the state must help create.

**Rethinking education**

Supporting the private sector will necessitate a recasting of the country’s educational system that has traditionally not prepared Libyans for meaningful employment.
In terms of education and labor skills, on virtually all indicators—quality of educational system, quality of public schools, quality of the education system, availability of trained scientists and engineers—Libya has repeatedly been ranked among the poorest performing countries in the world. While basic education is reasonable, the impact of the previous regime on higher education and on vocational training has been highly deleterious. Professional skills have been seriously degraded; the only exceptions have been among those relatively few who managed to study abroad, something that was dramatically curtailed during the United States’ and the multilateral embargo that lasted for more than a decade. By international educational standards, Libya in effect virtually lost a generation of students, and, as mentioned, ranks consistently near the bottom of international surveys that measure the quality of local education.

The return of thousands of educated Libyans in the wake of the civil war has, at least temporarily, improved this outlook. In order to avoid resentment between these returnees and local workers and employees, it is even more imperative that the government devote considerable energy and resources to upgrading the country’s educational facilities, make further changes to school curricula to bring them in line with international standards, and increase in particular training in computer and information technology. Much of this upgrading should be done if possible in consultation with the private sector to that the skills of the labor force can be coordinated with the expected demand of the market.

Faced with Libya’s realities and the virtual loss of a generation in Libya’s current pursuit toward a more open and competitive economy, the government’s educational policies and programs should privilege particularly opportunities for the country’s youth. Beyond reestablishing the traditional curricula into the country’s educational system, this includes as well institutions and programs that were neglected during the former regime: job search skills, career counseling, business skills training and developing those additional skills—including language and computer competence—that promise employment in Libya’s liberalizing economy. Bilateral agreements with other countries, and targeted programs of scholarships and overseas training, will prove indispensable in turning Libya’s education sector into a productive asset for the country.

**Expatriate versus national labor**

One of the most sensitive issues to resolve—particularly in light of the country’s need to put its own population to work—will be the role expatriate labor will play in Libya’s future. Because of the pronounced skills gap between what Libyan workers can provide and the actual developmental needs of the country, many of the white collar and highly technical positions will remain filled by expatriates for many years to come, and they will only gradually be replaced by younger Libyans who have enjoyed the requisite education and training.

For a number of reasons, however, the more sensitive issue will concern blue collar jobs since they compete directly with large-scale unemployment and underemployment in Libya, particularly among younger, lower-skilled Libyans. Traditionally the low wages expected by non-nationals have crowded out Libyans, contributing to greater local unemployment. Regulation of the labor market should focus on some restrictions on immigration, halting the flows of illegal migrants into Libya, and providing a number of incentives to Libyan firms and companies to hire nationals.

This assumes that the state will be able to overcome a sense of entitlement among many young Libyans, and that is is willing to think of additional measures to offset losses local companies may experience by hiring more expensive local labor. In this regard, as mentioned above, it is important to point out an important supplementary, educational task the state must urgently engage upon: improving the skills of nationals through education or through training to turn them into viable replacements for non-national labor.

**D. Establishing local linkages**

**Decentralization of public services**

For both economic and political reasons, after a long period of intense centralization, Libya must consider a decentralized approach to the provision of its public services. It is politically important because it will alleviate the longstanding concerns cities and regions have had about the loss of decision-making authority—an issue linked to federalism that has become accentuated during the civil war. But it is also important economically since it promises to increase local accountability and greater local involvement in formulating and implementing policies, raising the perceived legitimacy of the country’s governance framework.

Decentralization would also allow for more efficient and more transparent transfers of revenues from the central government to local administrations and bureaucracies. The central government obviously must retain overall power to set development priorities and to ensure that assets for public spending are allocated equitably across different regions. This, however, leaves much space for the kind of efficiencies decentralization can achieve, empowering local and regional groups in the process.

**3. Broader guidance and support for reform and development initiatives**

The Paper “Libya: Post War Challenges” summarized the surrounding, larger environment within which Libyan economic development takes
place. Understandably, much of Libya’s planners’ current preoccupations still focus on alleviating or reducing the impact of the previous regime’s policies. Much of what has been described as planning since the civil war has in effect been ad hoc responses to urgent larger socio-political concerns.

Planning for development is never simply about economic growth but also about equity, equality, development of human capital, prioritizing certain goals at the expense of others—difficult tasks that will undoubtedly tax the political will of the country’s planners as well as the patience of the Libyan population.

As in all other countries, but particularly since it is an oil exporter, economic planning in Libya is inherently a highly politicized effort. In order to isolate planners from these broader socio-political (and often security) concerns, many countries as a governance measure adopt so-called “change teams” that are institutionally kept at a distance from the larger political economy context of development planning in the country. Libya’s own Economic Development Board in the later years of the previous regime was essentially meant to be such a change team. Its fatal flaw, however, was that rather than being insulated from the larger socio-political and security considerations of the regime, it was used effectively by the regime as a tool to selectively pursue economic strategies that dovetailed with its larger concerns and hence prolonged regime stability.

In line with current development thinking, and in line with the IMF’s call for the creation of an independent agency for compiling more reliable statistical information, Libya should consider a more insulated team and agency to pursue planning, particularly as it moves toward designing future development plans. This would have not only the salutary effect of creating a team that can more systematically—away from political pressures—think about possible planning scenarios and alternatives. It would also deflect unpopular decisions from policymakers, and would allow the country to address in a more thoughtful way several of the dilemmas it will face in the future.

One of these dilemmas concerns the luxury to stagger addressing developmental dilemmas over time, relying on existing institutions that can provide regulatory direction, one of Libya’s major difficulties is that both conditions do not exist: its government faces multiple challenges simultaneously while facing not only a regulatory but a much broader overall lack of capacity. Sequencing of reforms—prioritizing one at the expense of others—is one of the most difficult tasks planners face for they have longlasting, often structural consequences for a country’s long-term development and growth, and they can lead to groups of disgruntled citizens whose interests are temporarily not met. Without an insulated planning team, such decisions are therefore often made based on political expediency. Having a change team in place allows planners to avoid making such decisions that most often result in short-term gains that prove politically palatable at the expense of less immediate payoffs that promise sustained development and the greater good for long-term development of the economy and society.

A recent report highlighted one such instance-creating public employment—where short-term gains can provide temporary economic relief, but more fundamentally threaten jeopardize the longer-term chances at meaningful employment for Libya’s youth:

“While such [public employment] programs do have the merit of providing immediate work to the unemployed, they do little to prepare young people for future opportunities in the labor force.... [it] can actually undermine one’s chances of securing future work as it is seen by potential employers as a signal of poor potential as a worker.”

L’un des problèmes persistants pour la Libye est le manque d’informations transmises par les canaux publics aux citoyens. Il s’agit là d’un héritage du régime précédent, sous lequel l’information était délibérément tenue hors d’accès des citoyens ordinaires. L’une des mesures clés pour obtenir un appui en faveur des futurs plans de développement du pays consistera à communiquer l’information. Compte tenu de ce qui s’est passé pendant la récente campagne électorale nationale où la Haute commission électorale nationale (elle-même une « équipe du changement politique » qui était indépendante) a admirablement tenu le public informé durant le processus, les responsables libyens devraient prendre conscience de la valeur de l’information fournie en temps opportun et de façon constante. Quelle que soit la nouvelle vision économique qui émerge, elle doit être clairement articulée pour les différentes parties prenantes du pays. Le système politique émergent du pays donne l’espoir que les plans et les politiques économiques feront l’objet d’un examen plus ouvert du public.

One of Libya’s lingering problems has been the lack of information that is publicly conveyed to citizens. A holdover from the previous regime when information was deliberately kept away from the purview of ordinary citizens, one of the key measures for gaining support for

the country’s future development plans will be the provision of information. As during the recent national electoral campaign where the Higher National Electoral Commission—its itself a “political change team” that was left independent—admirably kept the public informed during the process, Libyan officials should be aware of the value of timely and consistently provided information. Whatever new economic vision emerges must be clearly articulated to the various shareholders in the country. The country’s emerging political system provides hope that economic plans and policies will be subject to the scrutiny of a more public review.
Conclusion

The beginning of this paper described the economic and larger structural weaknesses and legacies in Libya’s economy:

“high levels of regulatory deficiencies, pervasive rent-seeking, incoherent and low levels of economic regulation, a dualistic economy, a non-transparent business environment, incoherent economic policies, state dominance that resulted in wholesale directives but little regulation of the economy, inadequate employment policies, obstacles to private entrepreneurship, weak legal statutes, and the neglect of certain sectors within the national economy... issues of extensive patronage, intermediation and corruption, high levels of state autonomy... the fragmentation of society that raises problems of trust, personal initiative-taking, and legitimacy...”

The paper then addressed several methods and initiatives by which many of these legacies can be confronted. By means of conclusion, it is perhaps as important to reiterate what initiatives must serve as the future drivers of the Libya’s planning efforts:

Regarding knowledge and regulation

- Develop greater information-gathering capabilities to provide the state with greater capabilities in formulating development policies.
- Provide for centralized information gathering that is publicly available.

Regarding the governance of the economy

- Create an independent change team that can formulate planning initiatives for the country without undue political interference
- Create independent teams for sovereign wealth and investment funds
- De-centralize the national economy wherever possible and feasible

Regarding the country’s business environment

- Elaborate, strengthen, and publicize investment codes
- Further streamline the country’s bureaucracy in line with stated social objectives
- Continue and support ongoing efforts for banking sector reforms

Regarding the role of the state and of the private sector

- Design plans for the state’s eventual withdrawal from much of the economy beyond the oil sector
- Develop further initiatives to support the private sector
- Develop further plans to extend greater diversification in the economy
- Design a robust safety net

The suggestions contained in this paper provide only a summary introduction to the problems and to the solutions available to Libya as it seeks to address the institutional, economic and socio-political challenges and opportunities the country now faces in the wake of its civil war and after decades of neglect. The progress the country has made in starting to craft and give traction to political institutions within a year of the end of the civil war, however, should provide hope for Libyan planners that similar progress can be made regarding the country’s economic future.
Appendix A

Measures adopted by Libya in the wake of the National Economic Strategy report in 2006:

- Creation of the Tripoli stock market in March 2007, meant in part to speed along the privatization of public companies.

- Creation of a more streamlined banking system, with the privatization of the banking system and foreign investment as majority stake holder starting in 2007 (Sahara Bank).

- Reduction of the minimum investment threshold from $50 million to $1 million in 2006.

- Creation of the Libyan Investment Authority (LIA) as the country’s sovereign wealth fund.

- August 2009: establishment of the Privatization and Investment Board, meant to establish a one-stop shop to streamline business license applications, and to instill greater investor confidence.

- New income tax (January 2010), flat rates of 10 and 20 % for individuals and corporations.

- Creation of an Export Promotion Center to boost trade, and to boost agriculture, light manufacturing and under-promoted sectors.

- The establishment of a centralized export center at the Tunisian border to help market Libyan products in regional markets.

- Legislation that would push forward attempts to have the Tripoli airport and free zones on the coast act as regional hubs.

- Legislation in support of tourist projects around Cyrene and other archaeological sites.

Jusqu’en 2010, la Libye avait adopté de très nombreuses autres stipulations concernant la Loi commerciale, la Loi sur les douanes, la Loi relative à l’impôt sur le revenu, la Loi sur le marché boursier, la Loi du travail, la Loi sur la communication, la Loi sur le registre foncier et les lois réglementant les activités de Libyan Investment Authority. Aucun de ces textes n’a été effectivement mis en œuvre.