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Background to the Libyan Economic Reform Programme Lessons and Challenge

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Abstract

This paper provide historical background of the Libyan economic reform since the end of the 2008 period, as structural and macro-economic reform progress and the non-oil economy starts to develop. The authorities could consider the desirability and feasibility of switching to a more flexible exchange rate regime that would permit more room to manoeuvre and respond to sharp fluctuations in oil prices. In particular, opening up the banking sector to external competition, strengthening the judicial system to accelerate and improve conflict resolution and reforming existing regulations in the areas of accounting, bookkeeping and bankruptcy are critical to strengthen the development of, and competition within, the banking sector, and to improve the financial market. To this end, in view of the various interests surrounding the Libyan economy, especial concern is paid to the key factors which contribute to increasing economic growth during the reform, the relationships between major macro variables and how they perform during the special process of transition and how to evaluate the position of the Libyan economy within the world economic framework.

Keywords: Libyan economy, Economic reform programme, Deregulation, Corporatisation, Privatisation, Liberalisation.

1. Introduction

After eleven years of political chaos and nearly two decades of central planning control on its economic system, Libya launched an economic reform programme under the framework of economic privatisation (UNs, 2002). Since 1999 the Libyan government has been gradually implementing measures to reform and to follow an *open door policy*. These efforts are aimed at altering the country's state-controlled economy to a more market-oriented one in order to integrate it into the global economy, restructuring the economic mechanism from central administrative planning to mostly market-driven pricing and exposing the economy to the world through trade (oil exports, and imports) and foreign investment.

The IMF report further supported the Libyan authorities' moves towards an open market economy for its speed of reform policy and trade liberalisation. Nonetheless, in future, it is significant that the government prepares itself to adjust into market development particularly regarding fluctuations in crude oil prices, and to keep exchange rate policy under constant review as the reform programme continues apace to assist competitiveness in the non-oil sector. This will ensure that economic reforms and an open door policy will maintain the global economic competitiveness Libyan products. In 2007 the overall performance of the macro-economy made remarkable progress with GDP increasing at 6.8 *per cent* (compared to a rate of 5.2 *per cent* in 2006), as a result of rapid growth in non-oil activities

2. Lessons and Challenge

The experience of economic reform and transition in other countries provides some insights for the Libyan economy. Via the nature and objective of developing economies and their success in adopting reform programme Libya can learn from their experience. The development countries' experience showed that the number of infrastructure projects undertaken in developing nations reached 1900 between 1990 and 1999, with total investments amounting to 580 million US$. 78 *per cent* of these were in Latin American and East Asian nations, while only 2.6 *per cent* were in the MENA countries (Mejbre, 2004). For instance, the Egyptian government privatised the mobile phone sector. The number of mobile phone users was 75,000 in 1997 when it was still part of the public sector. In 2001, following privatisation, this increased to 3 million users and the line cost was reduced from USD 500 in 1999 to USD 150 in 2001 (Mejbre, 2004).

In this context, for the purposes of comparison, in a study conducted by the Egyptian Council of Ministers (ECM), Egypt commenced its privatisation policy in 1991 by declaring the sale of public sector companies to the private sector. There were many factors underlying this policy, such as economic reform and paying off public sector debts that reached 170 million LE at the end of April 1998. The Egyptian government placed 290 public companies on sale; 163 of these were either failing, or troubled companies. Their value was estimated at 90 million LE and they were in debt by 20 million LE, equal to 71 million US$ (CBL, 2004). In Saudi Arabia, the government decided to cover the budget deficit reaching 44 million SAR in 1999 by using a well-studied programme for privatising some companies in the public sector, as announced by official sources at the end of 1999. Jordan, in mid-1996 sold more than 20 *per cent* of state shares in the cement manufacturing company. 49.5 *per cent* was state-owned in order to achieve a strategic partner to develop production quality for their new market. In Lebanon privatisation started in 1992 by forming a privatisation committee to scrutinise the conditions of public establishments and the capability of transferring to the private sector, aimed at lowering public debt that reached 16 million US$ in October 1998. The mobile phone industry was the first segment to join the private sector, followed by domestic phones and other services (Zoubi, 2006). In the UK, during the tenure of Prime Minister Margaret Thatcher (1979-1990) much of the public sector enterprises performed poorly, which provided the rationale for privatisation in terms of industrial and social service sectors including telecommunications, the national rail services and the gas industry.

Senina and Shamiya (1997) explained that privatisation in Libya stems from local economic conditions characterised by the fixed economic base and reliance on a sole economic resource i.e. oil. General indicators that usually measure the efficiency rate in an economy such as revenue, loss, return on investment and competition capabilities in foreign markets demonstrate that the percentage of failing production units in the food industry sector reached 89 *per cent* in 1987, 100 *per cent* in the construction sector and 50 *per cent* in the engineering and electrical power establishment sectors. Leasing, however, provided opportunities for the introduction of managerial and technical skills that would allow the use of knowledge, ability and vitality value in a more efficient within the lease duration. Libya, therefore, is developing an economic policy to improve management of the most productive public enterprises and to address the privatised ownership enterprises. Given Libya's unique history and aspirations, the primary challenges are discussed in the next outcomes of an economic reform programme.

2.1 Acceleration of the Transition to a Market Economy

In light of the previous discussion, Libya requires a comprehensive medium-term strategy policy to reform its economy and to make better use of its economic advantage and financial potential, through diversifying of the economy and reducing the country's reliance on the oil sector. The proposed strategic policy aims to maintain macro-economic performance stability and rational use of the country's oil wealth accelerating the transfer to a market-based economy and laying a solid foundation for development of the non-oil economy. The essential steps towards the restoration of confidence of the private sector and enhancing the country's economic potential retention sound macro-economic framework sending clear signals to the market underlying the commitment of the authorities to reform. IMF technical assistance has been provided[1] in order to implement the necessary reform measures. To achieve this priority should be given to the major steps towards an economic reform programme. In this research, as shown in Figure 1, these four characteristics are investigated, along with a liberalisation programme, a variable which was not taken into consideration in any of the economic reform programme research.

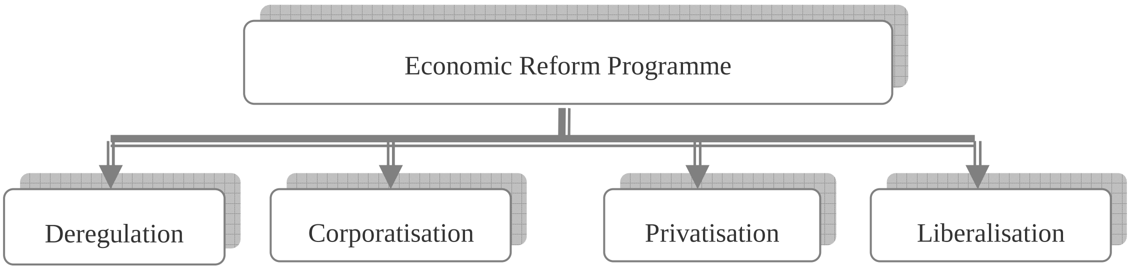

Figure 1: Potential Economic Reform Programme

Source: Author, 2013

2.1.1 Deregulation Programme

The Libyan government initiated a change by passing new laws and regulations to motivate and organise the activities of the private and co-operative ownership of productive enterprises, as well as the shareholding companies[2]. This new form of ownership (i.e. in medium and small-scale industries) is known as "*tashrukiya*", which an arrangement between private sector and state ownership, whereby each worker would share in capital and profits. This commenced with the significant reform Law no.8 of 1988 concerning a number of economic activities which were allowed for the first time 1977 were private sector and investment limited and the economic also was under control, followed by Law no.9 in 1992 on the practice of the Libyan business environment which allowed establishment of joint-stock companies called "*sharikah musahimah*". Nevertheless, neither of these laws was sufficiently adequate to motivate the private sector as they merely caused a small growth in

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1 The IMF has already provided technical assistance in the areas concerned with monetary policy and bank restructuring, banking supervision, tax policy, revenue administration and statistically activities (IMF, 2006).

2 According to LaPorta et al. (1998) most MENA nations, particularly the North African countries adopted the French law principles in their commercial law as agreed by Killick (1999) where in Libyan commercial law has been based on the principles of French law. In Libya, therefore, during 1953 commercial law was issued in order to regulate economic and business activities. Libyan commercial law divided business into four types: simple limited partnership; general partnership; limited partnership with shares and joint stock companies.

the service and crafts sector, while more critical sectors remained on hold. By the second half of the 1990s and the beginning of this century, another group of laws and regulations were passed by GPC with the aim of expanding the role of the private sector, establishment of private banks, adoption of the liberalisation of the wholesale trade and directing its activities towards economic reform. These laws were additionally aimed at attracting foreign capital and achieving the required financial stability of the Libyan economy as discussed.

The significant key of the Libyan deregulation programme in terms of developing the Libyan stock market can be divided into three distinct periods: 1970-1977: The Legal Framework; 1978-1986: A Transition Period; 1987-2006: The Re-economic Structuring within Establishment of a Stock Market. These three issues are discussed next.

2.1.1.1 The Legal Framework 1970-1977

Socialism appeared to take greater control over the Libyan system immediately following late 1969, even more than in the 1950s and '60s, as further laws were issued to increase the role of the public sector in the economy. This limited the role of the private sector in many production and service sectors. Examples of laws which promoted the role of the public sector include:

1. Law 65 (1970) pertaining to merchants and commercial companies: through this law, 2nd paragraph clause 7, the Libyan legislator allowed co-operative companies to put out their stock for public trading, so that the share of the company proprietor(s) might not exceed 10 *per cent* of the company's capital, and the share of the owner along with his relatives (as many as they might be) might not exceed 30 *per cent* of the capital.

- The law dictated that public trading be officially recorded on documents which included the trading person's full name, his nationality, address or work location, besides the number of shares being traded, the date, on condition that the minimum limit for trading be 100 shares and the maximum limit per person one *per cent* of the co-operative company's capital and 22 *per cent* of its assets and branches, so that the maximum limit of ownership of the involved parties would not exceed 5 *per cent* of the total capital.
- The law also dictated that trading priority be given to small investors among the ordinary population and that the trading person pay 50 *per cent* of the value of the shares upfront in exchange for a cash request for trade or a written cheque from any of the operating banks in Libya.

On the other hand, Libyan regulation heralded an end to the trading of financial shares by company founders, as well as real shares and formation prior to the publication of balance sheets and profit statements and affiliate documents, before the period of two full years (not less than 12 months each) had relapsed since the date of the document of establishment. Those shares and stocks had to remain in a non-tradable state and be stamped in a certain manner to demonstrate type, date of issue and license of establishment, according to the 6th subject of the 1st clause of law no.65 in 1970. The aforementioned law prevented the issuance of stocks to their carrier, reduced the role of stock exchange markets and limited dealings within corporate companies. Libyan regulations additionally prevented individuals from commercial activities like brokerage and stated penalties for those not complying with the law.

2. Law no.87 of 1975 on the organisation of operations by commercial agencies, limited commercial activities to public companies only.
3. The GPC decision in 1977 concerning the expansion of commercial markets.

These regulations, *laws* and *decrees* were issued with the aim of limiting the growth of the private sector in public commercial activities, to reduce it to internal trade alone.

2.1.1.2 A Transition Period 1978-1986

This period was unique in that several regulations were issued to revive the activities of the private sector in various economic fields, which had been controlled in the past by public sector companies; they now came to be owned by society. Among the most significant *Laws* and *Resolutions* made within this period were:

a. The Commercial Minister's Resolution 68 in 1978 on the organisation of import activities. This decree brought all imported products under the control of import permission and limited importing to public companies and agencies only.
b. Law no.4 of 1978, establishing sentences on real estate ownership. This law invalidated ownership that aimed at investment or rent.
c. GPC Resolution of 1979, on limiting the importing of products and cargo to public institutions and companies alone.
d. GPC Resolution of 1979, on the establishment of the National Markets Company (NMC), which handles the distribution of retail consumption products throughout the Libyan Republic.
e. GPC Resolution in 1983, on the organisation of trade activities, includes:
- Ending individual commercial dealings within the country between individuals or in any other form.
- Systemising trade via the People's markets.

f. Law no.9 in 1985, allowing productive, industrial, agricultural, and professional activities via co-operatives established solely for this purpose.
g. Law no.1 of 1986, issued by the People's Conference, on the contribution of Libyans in public companies and granting ownership of a number of economic units in the fields of industry, livestock and the navy, commencing in 1987. Libya was the first country in the region to adopt this direction. Later, law no.9 was issued in 1986 to invalidate the ownership of land, which reflected the contribution of the private sector; especially the percentage of its contribution to total investments, which did not exceed 12 *per cent* during 1976-1986.

All the laws and regulations issued during this period led to the cancellation of private sector activities in the industrial, internal and external trade, construction and real estate investment. Eventually, producers' *workers* moved to work at privately owned factories, which were later merged to become public companies owned by society. During this period, the economic activities of the private sector were limited to the agricultural arena besides a number of professions and crafts, such as workshops, traditional handicrafts, and truck and car assembly plants.

2.1.1.3 The Re-economic Structuring within Establishment of Stock Market 1987-2006

This period saw the Libyan government begin to move towards a more open and liberal post-1987 regime. Economic restructuring aimed at raising productivity rates, reducing burdens from the general budget, lifting standards of living and creating job opportunities. The laws issued during this period aimed to revive the private sector role in economic activities, as the General Planning Board (GPB) asserted the necessity of supporting the private sector, co-operative activities and companies, as well as encouraging foreign investment, attempting to recognise the working of international trade and establishing privately-owned banks. The most significant contribution to the Libyan economy among these regulations is the following:

a) Law no.8 in 1988 on sentences related to economic activity. This laid the basis for the restructuring of the Libyan economy. The first clause allowed individuals to separately or co-operatively practice economic activities, including the distribution of products and services, which were in the past limited to public companies. The second clause addressed individuals, families, land ownership and factories…etc. The 4th clause asserted the application of commercial law and its affiliated regulations and decisions taken on issues which were not covered in law.

b) Law no.1 of 1993, concerning banks and credit finance, replacing the banking law of 1963. This permitted the private ownership of commercial banks, besides allowing citizens to establish co-operative companies (banking companies), on condition that a company's capital was about 10 million LYD. It also permitted foreign banks to establish their representative agencies and offices in Libya, and allowing foreigners to acquire and maintain bank accounts in a foreign currency. Clause 13 of this law dictated that the Central Bank would be responsible for buying, selling and guaranteeing bonds and stock issued by the general treasury, payable within a 15-year period (at least). The CBL is the primary and secondary market for such tools because, after buying them from the treasury at 6 *per cent* for bonds and 5.5 *per cent* for treasury permits, the investment bank resells them. This Libyan regulation announced the sale to an accountable individual via the Central Bank, excluding normal citizens, as commercial and industrial banks invest in these tools and the Central Bank gains an annual interest rate of 0.125 *per cent* of the gross value of the issued stock in cases of buying and selling. The bonds and stocks are renewed at due dates, after discounting interest for the general treasury. The law further allows any commercial bank to liquidate any of these tools in the event of a need for cash prior to the due date of the bonds.

The issue of the aforementioned regulations played an essential role in the expansion of the contribution of the private sector, a fact which can be appreciated by observing at the growing rates of private investment in relation to total investments, from 9.8 *per cent* in 1989 to 24.6 *per cent* in 1997. Total national investment in the Libyan economy reached 215,655 million LYD during the period 1970-1997, with 178,994 million LYD 88.1 *per cent* to the public sector and the remaining11.9 *per cent* to the private sector. However, the issued regulations were limited to securing a role for the essential financial markets and institutions in the Libyan economy, thereby increasing the participation of shareholder companies and national banks. These are:

a. GPC Resolution 183 of 2001 on undertaking the ownership programme of public companies and economic units.

b. CBL Resolution 49 of 2001 on the adjustment and standardisation of the LYD price at 0.608 of SDR accounts one LYD, starting from 01.01.2001: previously there had been three prices for the LYD: the official, the private and the black market price. The standardisation of the LYD price contributed directly to elimination of the currency black market, as foreign currencies became available without any market resistance. This additionally contributed to the flow of Libyan products to the outside world and allowed investors the necessary confidence to pump their capital into the economy.

c. The General Financial People's Committee Treasurer (GFPCT) Decree 1 for 2002, on the adjustment of the customs' tariff: this eliminated the tariffs on Arab manufactured products for a decade. This goes further to support the prediction that Arab-Libyan trade is set to become a free one, especially among those countries which sign this tariff agreement by 2008.

d. Law no.21 for 2001 on defining the minimum limit of shareholders in shareholder companies, where it had become permissible to establish a shareholder company with 25 shareholders, if the total capital did not exceed one million LYD. This positive step facilitated the establishment of shareholder companies for individuals, as cancelled Law no.8 in 2001 had assumed a minimum of 500 shareholders for the establishment of a shareholders' company, which presented an obstacle against the formation of such companies.
e. Law no.9 of 2001 on the organisation of border trade and free zones.
f. GPC Resolution 70 in 2002 regarding the protection of the People's entities that are administered by owners and the protection of owners' rights.
g. GPC Resolution 17 in 2003 on re-adjustment of the price of the LYD.
h. GPC Resolution 28 in 2003 on granting approval to commercial banks to issue credit cards in foreign currencies, backed by the accounts presented by the LYD or those presented in foreign currencies, owned by individual clients or entities at those banks.
i. Law no.1 of 2004 on the addition and adjustment of a number of rulings of Law no.21 of 2001 on various economic activities. The former facilitated the establishment of shareholding companies, by enabling them to issue carrier stock not only in name. It is further expected that these companies will be allowed to lower the minimum limit of shareholders and increase the percentage of individual holdings, in contrast to previous numbers decreed by Law no.100 for 2001.
j. GPC Resolution 100 of 2004, relating to privatisation of 126 economic units in the form of cooperatives spread among the governorates to apply the procedures of transfer of ownership.
k. Law no.11 of 2004 on Income Tax. Here, the Libyan authorities adopted a significantly positive step with the reduction of marginal personal tax rates and corporate taxes.
l. GPC Resolution 8 in 2005: organisation of representatives' office for foreign companies in Libya.
m. GPC Resolution 737 for 2005: reorganising registration of branches and offices for foreign company registration.
n. GPC Resolution 109 of 2006: establishment of Operating Funds. GPC Resolution 134 of 2006, on the establishment of the Libyan Stock Market (LSM) and the issuance of the assess system. The establishment of the LSM is a major step on the path of developing financial resources via the development of a sound capital market which is a critical issue and is discussed in detail in Section 6.12: Initiatives for a Libyan Stock Market.

On the whole, in the previous discussion, the new economic reform stipulated the establishment of shareholding companies which are relied upon to lead economic reform in all sectors. The entire process lasted more than 12 years before reaching the current state, commencing with Law no.9 in 1992, followed by Law no.8 and no.21 in 2001, and Law no.1 in 2004. All the aforementioned facilitated the establishment of shareholding companies, allowed the issuance of stock in their carriers' names, lowered the minimum limit of shareholders and increased the individual's share as opposed to levels previously dictated by Law no.21 in 2001.

2.1.2 Corporatisation Programme

The GPC is responsible for the principles and target transferral of ownership, as it is one of the economic reform programmes aiming towards expanding the ownership base and restructuring economic activities, according to the direction of the Libyan government. It seeks to adopt measures in reconsidering state-owned companies and replace them with partnerships and joint stock companies. The launching point for this reform appeared at the end of the 80s and the beginning of the 90s, when National Socialism (NS) emerged as a substitute for Libyan socialism. It began with Law no.8 in 1988 regulating economic activities, followed by Law no.9 of 1992 concerning engagement in economic activities such as corporations, partnerships and joint stock companies, in addition to the ownership of micro public economic activities. The relationship between privatisation and financial markets is a dual arrangement, due to the latter providing funds for privatised establishments and aiding the evaluation of public establishment according to the value of issued stock and demand and supply mechanism in the market. The following key aspects are discussed.

1. GPC Resolution 427 of 1989, pertaining to the application of collective ownership of economic units. This law was issued with the aim of transferring public companies owned by societies into collectively owned companies *co-operative companies owned by individuals*; it defined its activities and operations. Consequently, all privately owned companies and entities became subject to this law, including banks, investment and financing companies.
2. GPC Resolution 340 in 1991, regarding the regulations of hiring in individual and collective economic activities. The first clause allows individual and collective owners of economic units to employ Libyans or other Arabs as dictated by the fifth subject of this law. It dictates that a partner's share must be approved by both partners, or depend on the effort exerted by each in production or provision of the service.
3. Law no.9 in 1992, on practising economic activities. The second clause of this law stipulated that individuals are permitted to practise economic activities in the fields of production, commodity distribution, providing services such as education, health, agriculture, industry, commerce, tourism, transportation, real estate and finance, besides professions like the practice of law, medicine, engineering, accounting, contract documentation, financial investment, economic investment, legal, commercial and iron works, among other activities. The third clause of this law specified the economic activities mentioned in the second clause of Law no.9 practised in any of the following forms: partnership companies; public companies and entities; co-operatives; family businesses; individually owned businesses.

This law further defined the value of stock owned by the decision makers in co-operative companies, on condition that they not exceed 100 LYD, according to the following regulations:

a. Individuals in co-operative companies with a capital that exceeds 0.5 million LYD may not own more than 12 *per cent* of the total stock.
b. Individuals in co-operative companies with a capital that exceeds 0.5 million LYD may not own more than 10 *per cent* of the total stock, while limiting an individual's ownership of assets and branches to 15 *per cent* of the total amount of stock.
c. Individuals in co-operative companies with a capital that exceeds one million LYD, may not own more than 8 *per cent* of the total stock, whereas an individual's ownership of assets and branches may not exceed 10 *per cent* of the total stock.
d. Individuals in co-operative companies with a capital that exceeds two million LYD may not own more than 5 *per cent* of the total stock, whereas the establishment of co-operative companies is not allowed except through public sector.

4. GPC Resolution 300 of 1993 on the regulations of building ownership, companies and public economic units: the initial clause of the first chapter dictates that ownership sentences must be applied as follows:

a. Public institutions, buildings and companies
b. Partnership companies that are fully or partially owned by the state or public figures

c. Public services and equipment included in public wealth, under law 87 of the civil law.

This law further clarified the transfer of entities full or partial ownership by the state or individuals, according to the following regulations and laws formulated by a central committee established for this purpose.

- Granting ownership of the entity's stock to normal or accountable individuals
- Granting full ownership of the entity and its stock
- Liquidating the entity and ending its legal existence.

5. GPC Resolution 313 of 2003, on the transfer of 360 companies from public to shareholders and co-operative ownership, during the period 01.01.2004 to 31.12.2008. The following items have been determined:

a. The ownership of 41 companies and economic units has been entirely transferred with a total asset value of 54,222,887,000 LYD to 282 producers and 4591 shareholders.
b. 55 companies and economic units for shareholding
c. 80 companies and economic units under evaluation
d. Stock for sale through the CBL during the subsequent period:

- Arab Cement Company
- Libyan Cement Company
- Grinders and Feed Company
- Tractor Company.

2.1.3 Privatisation Programme

Privatisation became one of the primary policies adopted by the IMF and the World Bank as part and package of its economic reform and structural adjustment programme to remedy deteriorating economic conditions, especially in developing nations. They suggested introduction of market-oriented policy reforms to deregulation, liberalisation, nationalisation, budget deficit and balance of trade, to cut public expenditure, reduce state intervention and trade controls, devalue currencies, public sector inefficiencies and privatise or liquidate public ownership enterprises.

Clearly, during the past two decades throughout the world governments introduced various forms of privatisation programmes to their economic structures, ideological positions and political orientations. These forms of privatisation were adopted by developed and developing nations. For instance, in the developed market, Margaret Thatcher launched a massive privatisation policy in the UK based upon arguments that this would improve people's lives in areas such as: business effectiveness, broadening share ownership, reducing public borrowing, enhancing citizens' power and ensuring the well-being of all in the long-term (Rentoul, 1997). Likewise, in the US the key objectives of privatisation were to improve economic performance efficiency, promote economic recovery, reduce federal deficit and strengthen popular capitalism by expanding shared ownership enterprises (De Castro and Uhlenbruck, 1997). Similarly, in Japan privatisation was adopted to improve their economic efficiency, enhance efficiency and business competition and reduce the role of the state (Krauss, 1995).

In developing countries, between the early 1980s and late 1990s, forms of privatisation were adopted. For instance, in Libya, India, South Korea, Thailand, Malaysia and the Philippines, within their its all-pervasive economic sectors or activities, including the sales of equity and of assets, electricity, management contracts, banking, insurance, water supply, oil and gas, telecommunications, airlines, hotels, food processing, tourism and corporatisation (Mohamed, 1995 and World Bank, 1995a). In Asia the number of privatisation transactions increased from 108 to 367 during the periods 1980-1987 and 1988-1993, from 136 to 561 in Latin America and from 210 to 254 in Africa (World Bank, 1995a). During the 1988-1993 period, in Asia, the total value of privatisation transactions was 19.7 billion US$, in Africa 3.2 billion US$ and in Latin America 55.1 billion US$ (World Bank, 1995a). By the mid-1990s, Malaysia privatised about 357 projects, including numerous large companies in telecommunications and energy. In June 1993, the Philippines replaced 310 companies out of 419 non-performing assets and 78 out of 122 state ownership enterprises and similar programmes of privatisation were launched in Bangladesh and Pakistan (i.e. see Sader, 1993; World Bank, 1994 and 1995b; Kelegama, 1995). The report of the Organisation for Economic Co-operation and Development (OECD) for 2000 stated that total revenues of privatisation in all nations had increased by 10 *per cent* during the previous 10 years, which equals 145 billion US$. The largest sole operation was in Italy. This was worth 14 billion US$, representing 34.5 *per cent* of the shares of the largest national public electric power company. However, transfer of ownership in Libya began in 1987 by sharing the returns on investment with employees: profits were divided among the various elements of production (worker, machine, capital) according to a specific accounting system. The transfer was governed by the People's Committee Resolution no.447 of 1987, based upon Law no.9 in 1985 and GPC Resolution no.313 of 2003. The transfer process was conducted as follows:

a. Ownership was transferred to employees
b. It took the form of exemplary partnerships
c. Total value of assets sold was 98 million LYD
d. It was sold by its book value with annual instalments according to the return on the sold unit.

The most significant achievements of this stage are:

- 30 *per cent* of the national labour force employed by the public sector, transferred to the private sector
- Recovery of almost 80 *per cent* of the assets owned.

The number of transformed units reached 295; the value of their assets equalled 98,000,000 LYD. The transformation process continued from 1987 to 1992, as shown in Table 1. This saw many positive results, such as the retrieval of 75 *per cent* of the assets' value owned by these units, including the transfer of 30,000 products to the national sector.

Table 1: Transfer of Ownership of a Number of Factories and Production Units during 1987-1992

Economic Sector	Number of Units	Value of Assets
Industrial	150	52,000,000
Agricultural	50	6,000,000
Marine fisheries	50	29,000,000
Livestock	45	11,000,000
Total	**295**	**98,000,000**

Source: GPC Decision no. 313 in 2003 approving the public sector's restructuring programme.

Following cessation of the 1992transfer process there was an eight-year gap until it resumed subsequent GPC decree no.313 in 2003 approving the public sector's restructuring programme and enhancement of the ownership base. The Committee additionally issued the list of designated public companies and economic units' no.31 of 2003, including a time frame for the transfer process guided by a legal and administrative framework concerning partial and overall levels. Ownership was transferred from 360 economic units into agricultural, industrial, livestock and marine fishery sectors; the value of their total assets equalled 8 million LYD, and 100,000 plus employees worked in these economic units. This programme will be executed over a period of time between 2004 and 2008, and in three stages as illustrated in Table 2.

Table 2: Number and Classification of Units that will be Transformed between 2004 and 2008

Economic Sector	First Stage	Second Stage	Third Stage	Total
Industrial	145	41	18	204
Agricultural	28	4	24	56
Marine fisheries	11	0	11	82
Livestock	16	1	1	18
Total	**260**	**46**	**54**	**360**

Source: Production affairs transfer of ownership in Libya (2004).

2.1.3.1 First Stage

This stage aimed at transforming easily warketed production units to the private sector. They included 260 units to be transferred during the 27 months up to the end of 2005. The designated units represent 72 *per cent* of the total number included in the transformation process, accounting for 32.5 *per cent* of the total value of assets, which equal 2.8 million LYD. Over 59,000 employees work in these units. Fifty-two *per cent* of the transferred units took the form of partnerships, 36.5 *per cent* became *joint stock* companies, 4.5 *per cent* became joint investments and 3.8 *per cent* were sold to individuals. The programme set selling priorities according to the difficulty of marketing the unit, which was based on the value of its assets, number of employees, liabilities and affiliations. During the period 01.01.2004 to 31.12.2005 many units were privatised (GPC, 2004):

- 46 economic units that could not be developed
- 10 agricultural projects were divided and sold as farms
- 12 units were sold to Libyan and foreign investors as joint investments
- 192 units will be able to continue their activities after eliminating financial burdens imposed by the banking sector, social security fund, taxes, customs and the electrical power company, which hindered production. The debts of these units will be covered by the National Production Support Fund (NPSF) and the State Treasury (ST). The total amount of public debt surrounding these units reached 549 million LYD.

Additionally, in Tunisia, for example, the total number of privatisation operations was 167 in 1987 (including 92 establishments), which created 550 additional job opportunities, and 8 establishments released 300 of their employees. In Algeria hotels were the initial target of the privatisation process, and 600 were sold to private investors. Subsequently, 12 factories were put up for sale.

2.1.3.2 Second Stage

This stage aimed to transfer its ownership from 01.07.2004 to 30.6.2007. This meant that it would require 3 years to transfer these units, which would interfere with the first phase and continue for one-and-a-half years following it. Forty-six companies would be transformed during this stage, of medium to large size, representing 13 *per cent* of the designated companies in the programme. The total value of assets of these production units equals 1.2 million LYD, representing 22.5 *per cent* of total assets in the programme and employing 14,000 employees. Fourteen units would be jointly invested by foreign investors. The remaining 2 units were already joint investments, which required transferral of ownership of the Libyan investment to the national sector.

2.1.3.3 Third Stage

This stage started with the issuance of Law no.9 in 1985, which regulates partnerships and the economic restructuring and reforming process. Law no.8 of 1988 was issued to regulate the economic activities in general, succeeded by Law no.9 in 1992 concerning engagement in economic activities. These laws played a role in the relative enhancement of private sector participation, which is evident in the growth of total investments from 9.8 *per cent* in 1985 to 24 *per cent* in 1997 (Libya's revolution in year 30).

This stage targets 54 productive units, representing 15 *per cent* of the programme’s total number. Their total assets equal 4 million LYD, accounting for 45 *per cent* of all assets in the programme and employing 27,000 workers. The number of companies in the second stage is 46. Most are large and required a sizeable number of employees to be made redundant. In addition to these 7,500 worvers, thousands more will be laid off in the first group of the first, second and third stages (GPC for the Production, 2004). All these units will be put up for sale as joint investments during the first stage from 01.01.2004 to 31.12.2006. GPC Resolution 100 of 2004, pertaining to the privatisation of 126 economic units in the form of co-operatives, shared the procedures of transfer of ownership among the public economic units.
To this end, the successful implementation of the reform programme agenda outlined in previous discussion will require significant improvement in government practice with management measures aimed at enhancing transparency and accountability in government operations to encourage the adoption of clear deregulation and to strengthen the institutional framework (establish an efficient judiciary and reinforce the government’s audit body). The privatisation programme, however, of such a recommended action plan during the 2008-2010 period, according to the IMF (2006) is that reform should include the following:

1. The Economic Diversification and Sector Policy.

- Continuing efforts to create a sound investment environment characterised by strong institutions to support open markets and equality in the treatment of all investors, and strengthening the rule of law
- Completing implementation of the privatisation programme
- Complete restructuring of the banking system and development of financial market
- Develop a plan for land reform and reform of the current legal framework for industrial land
- Reform labour law to allow greater flexibility for institutions to control the quality of employment and determine its appropriate size
- Improving government service in the agricultural sector and improving rural infrastructure.

2. Civil Service

- Initiate a reform of the civil service consistent with decentralisation of the new economy.

3. Social Policies

- Implementation of comprehensive reform in the sectors of education and healthcare
- Develop reform program package to restructure and strengthen the social security system.

4. Governance

- Strengthening the institutional framework: creation of an accounting scrutiny; strong, independent and efficient judicial system.

The programme is executed by the Higher Committee[3] for managing the transfer of ownership program according to decision no.92 of 2000, besides decision no.93 in 2003 that handles the supervision and follow-up regarding transfer of ownership process in governmental and other economic sectors. The authority for encouraging foreign investment handles the programme of restructuring joint investments, which was guided by a number of economic policies to solve some anticipated difficulties during the execution stage. In fact, the expansion of any economy depends, mainly, on the ability of enterprises to attract funds from the private sector. For this reason, privatisation is a central drive by which a capitalist economy can function properly. In other words, a delicate balance must exist between suppliers who provide funds and the users of such within the economy.

2.1.4 Liberalisation Programme

During the past five years Libya has witnessed many changes. Until recently the country had no private sector and foreign entities could not own or lease property from individuals and there was a state-controlled monopoly on the purchase and distribution of consumer goods (US Commercial Service, 2006). In 1987 the initial signs of economic liberalisation allowed the Libyan government to quietly found the *Tacharukiyat* activity (Joint Stock Company). Subsequent regulations allowed for "*economic practice activity*" and the establishment of private banks. Since 1992, when the regulation on privatisation was issued, the sale of state property of the Libyan government was permitted. Many sources point to Act no.5 of 1997 which encouraged foreign investment, a landmark event that defined the conditions for foreigners investing in Libya.

On 1.1.1998 the Libyan government signed several agreements for foreign trade. One of these signalled the great free Arab market, which started to eliminate customs fees on Arab commodities. Within a decade it was expected that there would be a free movement of trade among the countries that signed this treaty. Libya then began to exempt Arab commodities from all customs fees and officially submitted an application in 2001 to join the World Trade Organisation (WTO) Alfaitori (2003). WTO's aims are to continue the world of General Agreement on Tariffs and Trade (GATT) in agreeing international trading rules and furthering the liberalisation of international trade (Goldstein et al., 2007). WTO membership

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[3] The Secretariat of the GPC issued decision no.215 for 2005 regarding transferring jurisdiction of the Local Industry Fund (LIF) to the General Authority for Ownership Transference (GAOT) and reorganising it as a fund for financing the expansion of ownership base program, according to the decision of the Secretariat of the GPC no.53 for 2005 as one of the administrative bodies linked to the agency.

assures access to the entire world market for Libyan manufactured products. These will encourage Libyan production in industry, agriculture or services under competition of foreign products in the Libyan market including intellectual property rights and institutions to promote greater trade and investment. The aim of this opening to the external world is to increase the efficiency of foreign production facilities and create competition within the Libyan market.

By 1999 considerable changes in the economy started to occur, specifically within the banking sector. The most critical steps adopted are the BPC resolution no.1 in 1999 concerning banking law and credit currency. However, laws were issued from the trade economy organisation. Most recently, in 2003, the Libyan president, Col. al-Qaddafi described the socialist experiment as a failure, which called for privatisation of the public sector, including oil industries and banking sectors. He also called for applying the alternative, which is social capitalism, in the form of companies owned by Libyan citizens. These new entities had the right to utilise foreign expertise in order to liberate the Libyan economy. In September 2005, he asked the public "*With the exception of oil, show me what other goods are produced by Libyans and which can draw money to the country?*" (Porter and Chairman, 2006:10). He further stated "*We have considered how to raise the income of Libyan citizens …we have to engage in trade. We have to produce and make a profit.*" (Porter and Chairman, 2006:10). However, he arrived at the conclusion that "*the stability of the regime was threatened*", (Altunisik, 1996). That is why the economic reform program was concomitant with political policy reform.

The Prime Minister was assigned to reduce trade. During 2004 the latter announced his intention to eliminate or reduce subsidies on basic foodstuffs and fuel; the government increased salaries and launched a collective privatisation effort, to include in excess of 380 companies. In mid-2005 duties were abolished on more than 3500 products. Simultaneously, the Prime Minster agreed, in addition to addressing the weakness of private investment, to provide seven billion US$ in lending from banking sector funds. Individuals wishing to start or expand a small business could submit applications to obtain loans as modest as 30,000 LYD under this programme, via the participation of state-owned companies and private banks such as the Bank for Commerce and Development (BCD) (US Commercial Service, 2006).

2.1.4.1 Governance

Governance assessment provided quality in the Libyan economy, according to the study of cross-country indicators used by the World Bank Institute (WBI). Governance, as explained by Kaufmann et al. (2007), uses a broad and comprehensive range of data on perceptions of six measuring dimensions such as[4]: Voice and Accountability (VA); Political Stability (PS); Government Effectiveness (GE); Regulatory Quality (RQ); Rule of Law (RL); and the Control of Corruption (CC). The indicators are based on numerous individual variables measuring perceptions of governance, drawn from 33 sources of data constructed by 30

[4] Kaufmann et al. (2007) measured six dimensions of governance accordingly: VA measuring a country's citizens able to participate in selecting their government (i.e. freedom of expression, freedom of association, and a free media); PS measuring perceptions of the possibility that the government will be destabilised or overthrown by unconstitutional or violent means including domestic violence and terrorism; GE measuring the quality of public and civil services, degree of its independence from political pressures; RQ measuring the ability of the government to formulate and implement sound policy and regulations that can promote private sector development; RL measuring the level of the rules of society, particularly quality of information enforcement by police including crime and violence; CC measuring public power exercised for private gain including forms of corruption besides capture of the state by elite and private interest groups.

diverse organisations, which include cross-country surveys of firms, commercial risk-rating agencies, public and private sectors and experts from non-governmental organisations.

Figure 2 illustrates that Libya trails its MENA counterparts when measuring governance indicators. It ranks lower than the MENA region in 2006 on voice and accountability, government effectiveness, regulatory quality, rule of law and control of corruption (Libya has a very low ranking of 18 *per cent*, whereas the MENA average was about 64 *per cent* in 2006). Brink (2004), Wade (2005) and Johnston (2006) have documented that corruption is a critical problem and makes it problematic to conduct business *effectively* besides increasing the risk to foreign investment with a negative impact upon a country's rate of economic growth. Another empirical study by the World Bank (2003) further discovered evidence of corruption where eight developing country managers were asked to rate how problematic general restrictions (i.e. policy instability and corruption) were for the growth rate and operation of their companies. Corruption was determined to be one of the primary obstacles in MENA countries. Only on political stability does Libyan rank higher than the MENA average of approximately 46 *per cent* in 2006.

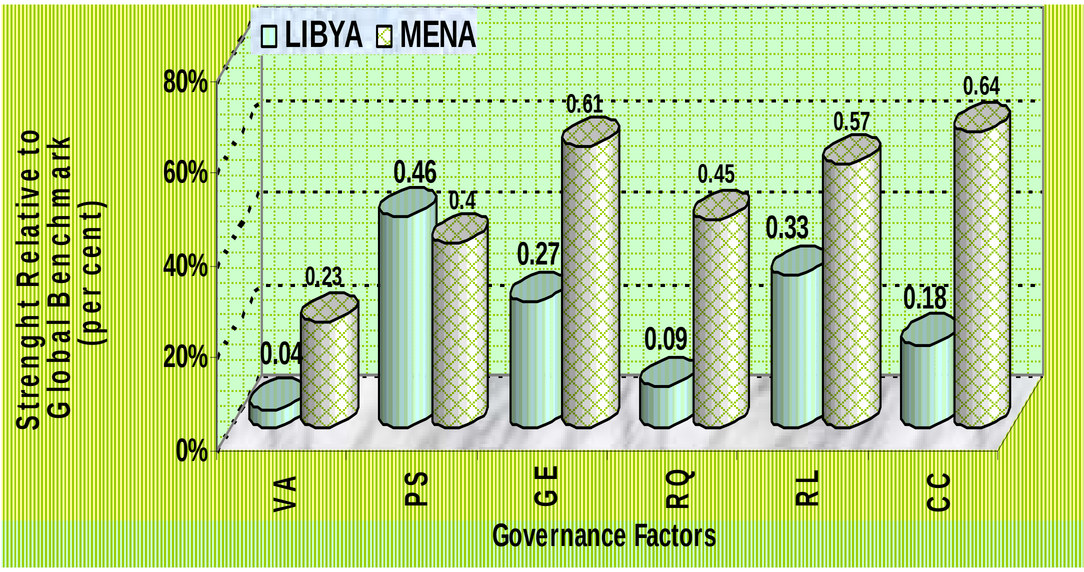

Figure 2: Key Governance Indicators: Libya vs. MENA Countries [a] in 2006

Notice a: MENA countries include: Algeria, Egypt, Jordan, Kuwait, Morocco, Saudi Arabia, Tunisia and UAE.
Source: Kaufmann et al. (2007).

3. The Results of Economic Reform Programme

As already indicated, the challenges mentioned are beginning to be addressed. For instance, the pace of economic and structural reform has improved since the lifting of the UN and US trade sanctions when other developing countries' rates grew worldwide with an average annual growth rate of real GDP around 0.3 *per cent* since 1999. This means that real Libyan GDP was 5.5 *per cent* times its 1999 value in constant prices by 2007 (see Figure 3).

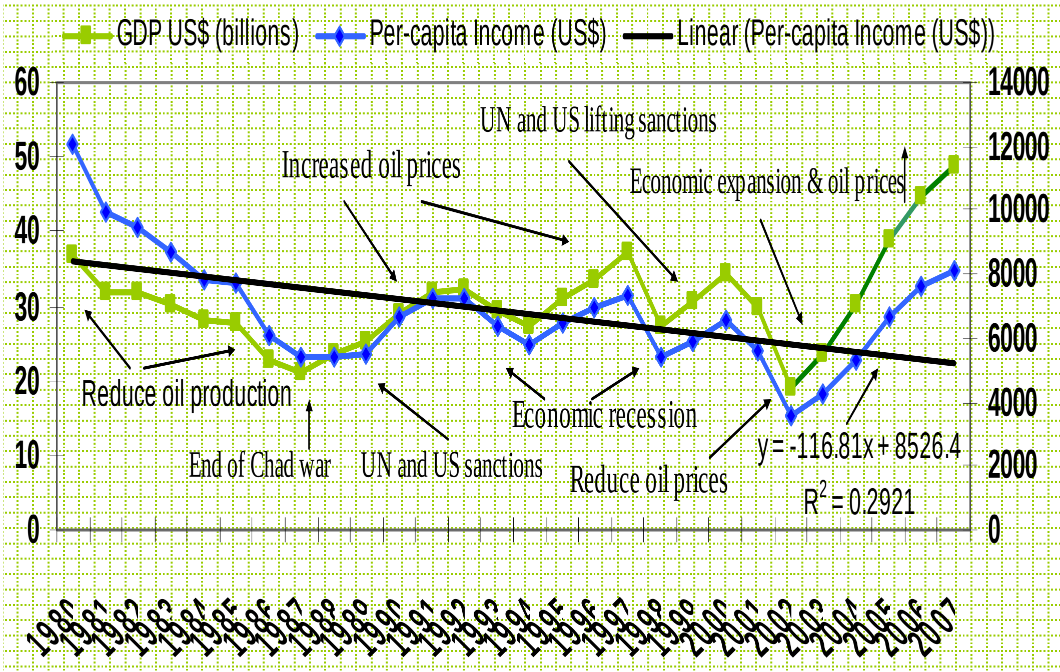

Figure 3: Percentage of Real GDP Growth and GDP Per-capita in US$ During 1980-2007
Source: IMF, WEO Database, April 2007.

Libyan real GDP per-capita also increased by 4.7 *per cent* during this period. At the same time, the increasing openness of the national economy meant that domestic growth was accompanied by oil export. In 1999 total exports were relatively small at less than 36,822 million LYD. Reform accomplishments include the passing of laws to encourage private investment, both domestic and foreign, the abolition of customs duty exemptions enjoyed by public enterprises, and reducing customs duties. Clearly, Libyan exports increased at an average annual growth rate of 13 *per cent* largely shifting from primary products to manufacturing. By 2004 total Libyan exports had reached over 208,483 million LYD, while imports, during this period, grew at much the same rate, on average. These increased from 19,286 million LYD in 1999 to 82,552 million LYD in 2004 in real volume terms. The opening of its doors to the outside world, especially to European countries, prepared Libya for thorough involvement in the global economy, thus rendering Libyan economic policy more relatively significant in the international economy framework.

Figure 4 displays the most significant events and true world oil prices situation during the 1970-2006 period. According to the IMF, during mid-2006, Libya's macro-economic indicators remained strong which might indicate the impact of the main steps of economic reform due to the high international price for Libya's crude oil exports. From among this oil price increases per barrel, the average account was 38 US$ in 2004, 50.64 US$ for 2005, 63.05 US$ for 2006 (CBL, 2005 and OPEC September, 2006). Subsequently, it resented 93.33 US$ for 2007 and 126.74 US$, during early 2008 (EIA, 2008).

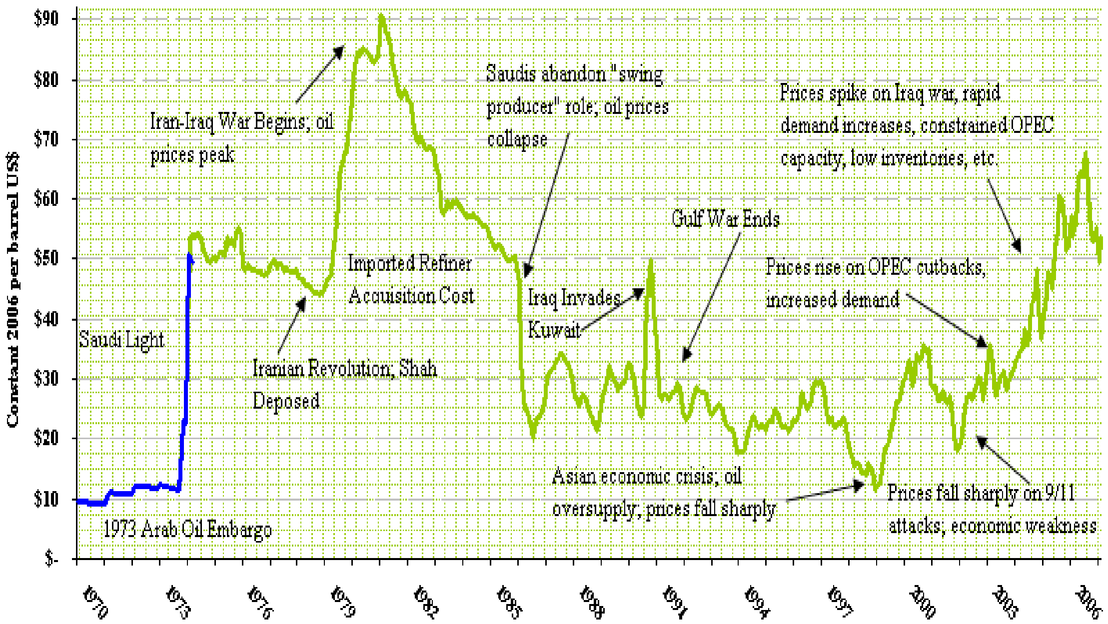

Figure 4: Key Events and Real World Oil Prices, 1970-2006 [a]

Notice a: Prices measured by CPI for all urban consumers, 2006.
Source: EIA (2008).

On 27 March 2008, oil prices reduced 141.71 US$ per barrel, amid Libya's threat to cut output and the prediction by OPEC's president that prices could reach 170 US$ by the summer (Schmollinger, 2008). Libyan economic growth rates during the early and late 90s were either negative or considerably lower. The negative and lower growth rates, during that period, however, reflect an era of political instability and poor adjustment to the reversal of boom conditions of higher oil prices. Regarding data from the IMF (2005, 2008), in 2003 there was rapid GDP growth during the post-sanction period at 9.1 *per cent* and non-oil sector growth by 2.2 *per cent* due to increasing oil prices. The fiscal stance continued to be expansionary, with a non-oil fiscal deficit widening to 36 *per cent* of GDP. In 2004 real GDP grew by 4.5 *per cent*, while, in 2005, macro-economic performance remained relatively strong. There was real GDP growth of 35 *per cent*, and inflation remained low (2.5 *per cent*), and agriculture, also, had remained modest at 2.5 *per cent*, whilst the manufacturing sector grew positively by 1.8 *per cent* for the first time for 5 years. In external terms, the current account surplus widened to 41 *per cent* of GDP with increased hydrocarbon exports wroth about 29 billion US$, at the end 48 *per cent*. Imports grew about 11 billion US$ of a 24 *per cent*, boosted by increased demand. Furthermore, gross international reserves rose to about 32 months of projected 2006 imports (IMF, 2006).

4. Summary and Conclusion

This paper has offered a comprehensive analysis of the macro environment of Libya and the performance and evolution of commencing financial sector development in the national economy. Following the 1969 revolution, the economy witnessed three major systems: the nationalism and socialism period, an open door policy period and, latterly, the economic reform programme. The economy experienced rapid expansion during the 1970s and early 1980s as real GDP grew by more than 10 *per cent* on average. This expansion was mainly financed by the oil revenue sector. In the mid-1980s economic growth slowed and the Libyan government started to experience reversionary trends. These later trends saw the collapse of oil prices and the Gulf war in 1990/1991. Following the collapse of its economy, Libya was forced to re-examine its policies and redirect its development strategies. The country was struggling with economic and financial crises and traditional remedies were becoming ineffective. The challenges of devising a strategic policy aimed at achieving the sustainable development of the Libyan economy are particularly linked to current official tendencies for restructuring the economy through increasing the role of the private sector and by continuing the process of privatising the public sector within the country. That outline, if achieved, would transform life for all Libyan citizens in terms of daily activities and the business environment.

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