

A Review of Libyan's Economy, Structural Changes and Development Patterns

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Abstract

The aim of this study to investigate the challenges of devising a strategic policy that would aim to achieve sustainable development of the Libyan economy, particularly in view of the current official tendencies for the restructuring of the Libyan economy by increasing the role of the private sector in the economy and also the continuing process by the government of privatisation of the public sector within the country. The period covered is sub-divided into the years (1970-2000) and (1999-2006) the assessment is carried out in terms of the extent to which the Libyan bank-based economy has grown into a capital economy. This study highlights the performance of the Libyan economy prior to and after the economic reform programme which covered recent historic background of Libya, political and economic environment, growth and structure of the Libyan economy, the background of the Libyan economic reform programme period, deregulation and privatisation programme.

Keywords: Economic structure; Economic reform programme; Developing changes needs; Libya

JEL Classifications: G0; G10; G15; G18; G19

Introduction

As economic reform programmes became the new phenomena within the last two decades, Libya, Egypt, Tunisia, Jordan and Saudi Arabia like most developing countries experienced the same programme aiming at achieving a stabilisation in its economy. They did so because they found themselves incapable of earning enough foreign exchange in order to protect their currencies. Indeed, many of these countries started transforming their economies from socialist, state-owned to market-based economies [1]. As the Libyan economy was on the edge of collapsing in 1999, the government undertook a rigid economic programme reform that would transform the economy from a socialist state-planned to a capital-based economy.

This economic reform programme has put the Libyan economy verging on to a market economy. This programme has attempted to transform the vital sectors in the economy and is aimed at training labour, finding new jobs, encouraging investments, and selling public enterprises in order to minimise the public spending. In fact, Libya, like many other countries, had long suffered from deficiencies in the economy, especially in areas such as inflation, balance of payment deficit, low rate of employment and growth, all of which has created and imbalance in the economy. Problems of irregularity in supply and demand had a negative impact on prices and balance of payments. Similarly, the fiscal policy tends to exceed the level of expenditure causing an imbalance between population density and growth and employment, resulting in structural distortion in the employment market.

The sequence of the rest of the study is structured as follows. This present section, Section 1, is the introduction section presenting the aims and questions of the study. Section 2 elaborates the historical background and geographical of the Libyan economy and discusses the basic characteristics of economic reform. Section 3 provides outlines the structural changes, which took place in the political and economic environment. Section 4 introduces the documentation of growth and structure of the Libyan economy. Section 5 describes the background of the Libyan economic reform programme period. Section 6 concludes as well as provides policy implications of the study.

Historic Background of Libya

The economic sectors during the 1950s went through a period of situation and economic development, as did the agricultural sector, resulting from poor quality land, lack of water and weather conditions. In the industrial sector, the manufacturing process was limited due to non-availability of raw materials, lack of a skilled labour force, local market narrowness and inability to process the product. The economy was not able to provide the necessary investments to change the backwardness into progression [2].

After discovering oil and starting to export it on a commercial basis in 1962, the problem of development in Libya centred on the search for development alternatives for the economy specifically in relation to viability in capital and rarity in labour element. Since the beginning of 1980s, when the oil revenues were reduced due to the problems facing the international oil market, the growth problem in Libya faced other difficulties, and efforts were taken towards providing growth and improving the continuing lack of technology and efficient workforce. This study aims at explaining the economic policy exercised by Libya and the role of private capital in the national economy. As the efficiency of the financial market is determined by the success of various productive projects, it is considered to the main factor to be established. An economic expert of the United Nations, Farley [3] said that the Libyan economy before discovery of petrol was a backward economy because there were no indications of economic growth existing at that time.

The priority in the first development plan 1973-1975 was the agricultural sector taking precedence over the industrial sector, and

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the Libyan economy achieved a high growth rate during the seventies which peaked 9.2% of the GDP. The priority in the second and third plans, 1976-1980 and 1981-1985 was the development of the industrial sector which achieved growth rates equal to 21% and 23%, respectively which were less than the growth in the population rate that reached 3.5% during 1998-2001. The Libyan government wants to accelerate the development process of the industrial sector using these two developmental programs that are considered to be the turning points in the Libyan economy. In spite of the large resources allocated for these projects, their contribution to the gross domestic product was very small in the light of investment in the industrial sector reaching 4249.9 million LYD from 1969 to 1996 with an average annual investment of 157.4 million LYD, during to the Secretariat of the General People's Committee for Planning [4]. Decrease in oil prices was one of the most important reasons behind the low production rates of the industrial sector, as its contribution to GDP declined from 77.4% in 1973 to 24.9% in 1997 and to 27.9% in 2002 [5]. One of the studies indicated that the increase or decrease in oil prices with 10% caused an increase or decrease in the gross domestic product with 3% [6].

The plan for the economic development program during 1996-2000 was based on economic and social transformations in production and service sectors, aiming at providing goods and services that fulfilled the needs of the local market and lowered the importation levels. The investment expenditure on industrial, agricultural and staple goods sectors reached 11 million LYD in three decades 1970-2002, which equals 36 milliards US\$ by used exchange rate 3.3 as follows:

- Investment in the industrial and mineral sector equals 5.5 million LYD.
- Investment in the agricultural and livestock production sectors equals 5.5 million LYD.
- Investment in marine fisheries equals 170 million LYD.

In spite of the tremendous size of the revenues which were specified for the industrial sector, its incorporation within the total local production stayed small. The investment value in the sector was about 4249.9 million LYD during the period 1969-1996. The level of investment rate was about 157.4 million LYD [7]. The actual growth of the sector still did not exceed 3%. The incorporation of the total local production did not reach 8% during the 1970s. This proves that the industrial sector depends strongly on the oil sector, as in investment operations or to gain raw materials due to reduction in oil revenues during the 1980s and 1990s [8].

Due partly to higher oil export revenues, Libya experienced a strong economic growth during 2003, with real GDP estimated to have increased by around 2.7 and 3.8%, up from 0.2 to 1.5% growth in 2002. For 2004, a real GDP growth of 2.3 and 2.6% is expected, with consumer price inflation of 1.9 and 3.5%. Despite Libya's relatively strong recent economic growth, unemployment remains high as the country's population grows rapidly and new jobs are not created quickly enough. In addition, Libya's relatively poor infrastructure (i.e. roads and logistics), unclear legal structure, arbitrary government decisions, a bloated public sector with as much as 60% of government spending going towards paying public sector employees' salaries, huge public works programmes i.e., the "Great Man Made River" project, and various structural rigidities have posed impediments to foreign investment and to economic growth [9].

Political and Economic Environment

Colonel AlGadhafi has ruled the Libyan Arab people since 1969

when he and a group of officers overthrew King Idris. Borrowing from the Islamic world has regime adopted the Arab Socialist ideas, which refused to establish a "third way" after communism and capitalism. In the early 1970s, driven by the Green Book Theory, Libya opted for a socialist state and a state-planned economy. Investment was essentially state-driven and trade and price controls, along with subsidies, were widespread. Economic performance was strictly constrained by stifling government interference in the economy and an unfavourable business climate [10].

Theoretically, the Libyan government is a combination of socialism and the people govern through direct representation in large conferences and popular committees. The basic unit of Gaddafi in the three levels of governance is the people Congress (BPCs). The steering committees of (BPCs) are called people's committees appointed from the membership of (BPCs). 'Grade' of the Libyan political system consists of municipal councils where there are People's Committees and specialised bodies that govern the operation of State-owned companies.

Therefore, the General People's Committees (GPCs) of all social and economic transformations, which is the area of economy and planning consultant to the peak based on the popular annual process of General People's Congress (conference) with superficial similarities in the Western-style Congress or Parliament. The group consists of representatives of the staff of the Basic People's Congresses, the secretaries of unions, associations and professional syndicates, the secretariat of the General People's Committee and the Governor of Central Bank of Libya. During the conference, usually held in March, the popular committees choose their secretariats, which in turn appoint the committee "trustees" to the (Minister in a parliamentary system west). Only the General People are the delegates to discuss issues relating to national security and foreign policy, the national budget and oil policy. The general Peoples' supreme committee and Sebha were declared president AlGadhafi as "the Libyan" a new Arab expression meaning "State Masses" [11].

Since the freezing of the UN sanctions in 1999, Libya has been gradually implementing measures to reform and open its economy. But, it is only since the lifting of the UN sanctions and all U.S. Libya-specific trade sanctions in September 2003 and September 2004, respectively, that the pace of reform has picked up somewhat, with the implementation of measures aimed at enhancing the role of the private sector in the economy [12]. On 28 June 2004 the United States renewed diplomatic relations with Libya direct and presented the interests of the United States of communication. On 20 September 2004, President Bush terminated the state of emergency against Libya by executive orders. This action eliminated most of the economic sanctions imposed on Libya, and led to the release of Libyan assets frozen in the United States.

Mike O'Brian, the British minister of trade, assured his country's eagerness to assist in the development of the Libyan economy, as it had previously assisted the Libyan government by providing a suitable environment for Libya to deal with the western world and return to the international arena. The British minister praised the steps taken by the Libyan government to return to the global society, stressing on the fact that Libya would recover economically in a few years. He stated that England was willing to play a major role in developing the Libyan economy on being the first and essential partner with Libya, emphasising that his country had achieved economic and trade revenues with Libya in the year 2003 estimated at 240 million sterling pounds, with an increase of 20% in its favour according to the trade balance with Libya.

He assured his continuous quest to increase the trade exchange with Libya to the maximum of the European level over the next couple of years. The British minister affirmed that his country was committed to providing technological and financial support to the various Libyan projects in order to ensure continuous development, and he pointed out that the current political environment in Libya facilitates this, as well as Libya's proximity to the European continent and its 2000 mile long coast. This coast is equal to half the African continent coast, which places Libya as the doorway to African countries and a commercial launching point. He assured that he would aspire to include a large number of European nations in Libyan investment projects [13].

Growth and Structure of the Libyan Economy

In developing the structure and the reframing of the Libyan economy, the economic and political policy on various environmental and social factors has moved forward (Table 1).

Fulfilment of society needs for commodities and services on the one hand, finally reducing dependence on oil income and utilisation of natural and human resources on the other hand have characterised the political and economic development in Libya in two periods.

The first period 1955-1969

This stage is recognised as financial to a large extent, starting in the mid-1950s when the oil companies started to enter Libyan territories for excavation and oil was believed to be there. They started exporting oil in 1962, consisting of about 30% from the local product in total. "It's the main resource for the currency" [14]. This sector is relevant indirectly for the other economic sectors such as education, health, electricity, construction, the building industry and agriculture, etc. The growing expenditure on these sectors comes completely from the oil and natural gas revenue, providing the economy with foreign currency to support the country's liabilities for the imports of commodities, services and exchanges. The supply of revenue to the social, economic and development allocations increased as well as the expenditure on public and private consumption which resulted in the improvement of the standard of living; the average income per person rose to 6171 dollars in 1987 and then increased to 8014 dollars per capita in 1992 [15].

Libya's economic growth rate during this period was one of the highest growth rates in the world. The gross domestic product GDP increased at an average rate of 22.6% per annum. Also, gross fixed investment had increased at an average rate of 15.6% per annum with the share in non-oil GDP reaching 63%. The two major factors that consolidate the development of the Libyan economy are: Firstly, the Libyan economy is a growing one in the oil and gas sectors, in a geographical area of about 1087 square kms. The population increased during the last decade from 3225.1 thousand in 1980 to 4524.4

thousand in 1990, and finally reached 5426.8 thousand in 2000. The annual growth rate of population during the period 1970-2000 was about 3.8% due to the improvement of standards of living [7] and it has a coastline in the about 2000 kms, on the Mediterranean. The geographical depth of Libya is North Africa making it as a strategic link between east and west. It is also surrounded by a group of countries where the economy and a labour surplus provide some civilised, historical and natural resources. Libya, as an archaeological country, has to establish and sponsor tourist activities through building tourist hotels, tourist villages, health centres, banks, companies and leisure places. The investment could be through providing political services, like travel agencies, naval transport, air and land transport.

Secondly, the Libyan economy developed within the last three decades to adopt a socialist philosophy, which encourages public ownership and variant national income due to the independence of oil wealth. This in a way has enabled the country to change to productive assets and to replace the achieved revenues from new resources instead of the oil revenues, continuously and regularly [16]. However, laws were issued from the trade economy organisation. Regulations controlling trade and economic policy are as follows:

- Law supervising the issued finance in 1955 and its item no. 1 in 1957
- Export and import law no. 59 in 1957
- Law to regulate export and import no. 59 in 1957
- Treasury minister's decision no. 2 in 1962 for the customs.
- Supervision on foreign expenditure
- Quantity limitations on imports (import permits).

The second period 1970-2000

The planning of this period was not just a means to provide development, but was considered as a means to execute social changes happening in Libya. The social tension started to appear, as it was during the 1950s and 1960s, and the development plan 1973-1975, considered to be the first plan to provide the requirements for social changes, concentrated on basic food industries. The transformational economic plans during the period 1973-1985 gave priority to the industrial sector so that it can play a vital role. The main idea was to reduce dependence on oil, to tackle unemployment, and to decrease dependence on exported commodities. It was a plan to build a domestic industrial basis. Therefore, the government designed the economic development from 3 to 5 year plans whose major goals are:

1. The structural design of the Libyan economy limited the interest of industry and the agriculture sector.
2. It reduced the oil sector gradually and limited its exports to ensure providing the needs for other sectors.
3. It reached the point of being self-sufficient in the necessary industrial and agricultural products.
4. It established industries depending on oil and natural gas to invest in activities directed to export.
5. It created job opportunities for the nationals for the sake of reducing the foreign labour force.

However, during the first five year plan, for social and economic transformation between 1976-1980 more focus was put on the petrochemical and industrial sector. Assignments during this period

Libya's past	Libya's emerging future
Significant isolation from the outside world	Increasing integration with the outside world
Focus on equality of living conditions and social standards	Greater opportunities for individual achievement and involvement in the productive sector
Oil revenues as the main source of national prosperity	Oil revenues supplemented by wealth created in other parts of the economy
Government's central focus on the distribution of oil revenues to address social needs	Government increasingly working with the private sector to enable the creation of wealth in competitive markets

Table 1: Libya entering a new stage of its development.

were 1513.4 million LYD, continuing to 21.1% from the total objective assignments. Priority was given to food industry and consumer items (including consumption intermediate) in an attempt to reduce imports. In the second five year plan for social and economic transformation between 1981 and 1985, priority was given to investment and improvement of petrochemical and export industries such as oil refineries. During this period the gross fixed investment had increased at an average rate of 14.5% per annum within an average annual share in the non-oil GDP of about 58% . For the same period the GDP and the percentage had increased at an average rate of 12.6% per annum, respectively.

Following a strategic policy to encourage exports, the Libyan government established a board for developing exports and marketing then in foreign outlets (presenting tantalising prices, strong advertisements, and sometimes selling on credit). But Libyan exports were subject to three basic shocks during the two decades 1970s and 1980s; yet the impact of those shocks was generally positive on the Libyan economy: Firstly, the 1973/1974 oil crisis led to the nationalisation of Libyan oil companies (Table 2). The maximum oil production capacity was 3.32 million barrels per day by 1970, and the barrel price increased from 2.2346 dollars to 26.2 dollars just one year later. The increase in oil prices increased was four times during the 1970-1973 period, sustaining economic growth and prosperity [17] (Table 2).

Secondly, the oil prices had increased sharply during the period 1979/1980 (barrel price increased four times) due to the Iran–Iraq war (Table 2). Fisher [20] argued that during the 1980s, the Libyan economy has been deeply affected by the low price of oil. This in turn negatively affected the general budget of the government along with the international economic depression and most importantly, the embargo of the United States on Libya. Because it was the first importer of the Libyan oil, the US economic sanctions affected the Libyan economy to a large extent (OPEC). This situation affected the economic transformation plans to a great extent. During the 1970s and early 1980s, for example, the amount designated for the fifth plan 1981-1985 was to be 18.5 million LYD or equivalent to 55 billion US\$; but it had to wait until 1981 so that the conditions could be met. After that, the increase in public expenditure weakened the transformation plan from 2705.1 million LYD for 1981 to 176 million LYD in the 2000. Due to the expansion in transformation plans to include projects of construction a rise between 234.5 million LYD was needed in 1980 and 1500.7 million LYD in 1999. Therefore, the Libyan government had to fill the financial gap between what was planned for and the amounts available for those projects [21]. The following Table 3 summarised the Libyan economic growth during the 1962-1990 period (Table 3).

Year	Political Factors	Results
1973	Israeli Arab war	Increased oil prices
1979	Iranian crisis	Increased oil prices
1980s	Different measures taken by industrialised countries to reduce their dependence on OPEC oil.	Reduced oil production (oil exports and oil prices)
	OPEC operation to control prices and oil production and oil exports quantities	Reduced oil production and oil exports
1986	The USA's ban on importing oil from Libya	Reduced oil exports
1992	The UN sanctions on Libyan economy	Reduced oil production and oil exports

Source: Calculated from CBL Central Bank of Libya (1966-2000) Research and Statistics [18,19].

Table 2: The main political factors affecting oil production during the 1973-1992 period.

The Background of the Libyan Economic Reform Programme Period

After the 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 (United Nation Sanction). Since 1999, the Libyan government has gradually been implementing measures to reform and following an open door policy. The efforts are aimed at changing 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 (export oil, and imports) and foreign investment. The pace of economic and structural reform has improved since the lifting of United Nations and the United States trade sanctions when the other developing countries rate growing worldwide, with an average annual growth rate of real gross domestic product GDP around 0.3% since 1999, and this makes Libyan real GDP by 2006, 5.0% times of its 1999 value in constant prices (Figure 1).

Libyan real GDP per capita also increased 4.7% times during this period. At the same time, the increasing openness of the Libyan economy meant that domestic growth was accompanied by Libyan oil export. In 1999, Libyan total exports were absolutely small with less than 3682.2 million LYD. The reform accomplishments include the passage of laws to encourage private investment, both domestic and foreign, the abolition of customs duties exemptions enjoyed by public enterprises, and reducing customs duties (Figure 1).

Moreover, Libyan exports increased at an average annual growth rate of 13% largely shifting from primary products to manufactures. By 2004, Libyan total exports have reached over 20848.3 million LYD while Libyan imports during this period grew at much the same rate on average as Libyan exports and increased from 1928.6 million LYD in 1999 to 8255.2 million LYD in 2004 in real volume terms. The opening of its door to the outside world especially in European countries prepared Libya for doing strongly involved in the world economy, these making the Libyan economic policy more relatively important in the wide world economy framework.

Therefore, not only was Libyan real GDP growth rate increased in the Arab economy in the world during this period, but the Libyan economy also become more successful compared with oil countries. Due to favourable conditions in the world the oil revenue to Libya in the external current account surplus rose sharply from 15.4% of GDP in 2003 to 25% of the GDP in 2004. As a result, Libya's gross international reserves rose to 18.9 billion US\$ in 2003 and 24.6 billion US\$ in 2004, up from 15 billion US\$ in 2002. This has attracted the world wide attention on the post reform programme in Libyan economy, as it was believed that the increased economic development of Libyan economy world have a significant influence on the economic future of North African and Middle East regions and the world economic situations as well.

In addition, by the end of the 2008 period, as structural and macro-economic reforms 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 give them more room of manoeuvre to respond to sharp changes in oil prices. In particular, opening up the banking sector to external competition, strengthening the judicial system to speed up and improve conflict resolution and reforming the existing legislation in the areas of accounting, bookkeeping and bankruptcy are critical to strengthen

Factors	1962-1969	1970-1982	1983-1990	1962-1990
Gross Domestic Product (GDP)	22.6	13.2	-2.5	11.8
Agriculture forestry and fishing	4.1	4.6	11.8	6.70
Mining and quarrying (Inc. oil)	46.7	14.3	-7.8	17.8
Manufacturing	8.4	18.6	7	13.0
Construction	19.9	15.3	-1.8	12.0
Transport and Communication	16.6	18.1	-0.4	13.1
Wholesale and Retail Trade	12.7	17	-2.1	10.9
Services Gathering	13.4	14.0	2.7	11.1

Source: Calculated from CBL Central Bank of Libya (1966-2000) Research and Statistics [18,19].

Table 3: Annual growth rates of the Libyan economy by sectors during the 1962-1990 period.

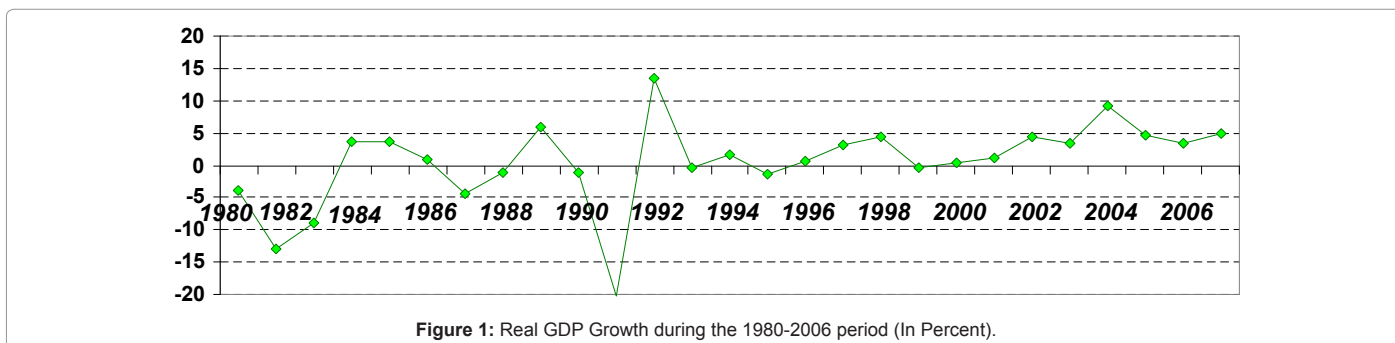


Figure 1: Real GDP Growth during the 1980-2006 period (In Percent).

the development of, and competition within, the banking sector, and improve financial deepening [22]. However, in view of the various interests on the Libyan economy, particular concern is put on, the key factors which contribute to increasing the economic growth during the reform, the relationships between major macro variables and how they behave during the special process of transition and how to evaluate the position of the Libyan economy in the world economic framework.

Deregulation programme

The Libyan government initiated a change by passing new laws and regulations to motivate and organise the activities of the private and cooperative sectors, as well as the shareholding companies. The beginning was with the Law 8 for the year 1988 on a number of economic activities, followed by the Law 9 for the year 1992 on the practice of a number of economic activities. Nevertheless, both these laws were not adequate to motivate the private sector; as they only caused a small growth in the services and crafts sectors only while more important sectors remained on hold.

By the second half of the 1990's and the beginning of this century, another group of laws and regulations were passed with the aim of expanding the role of the private sector and directing its activities towards economic reform. These laws were also aimed at attracting foreign capital and achieving the required financial stability of the Libyan economy. A number of laws were issued to facilitate the application of the aforementioned laws [23-33].

1. The People's Committee Decree 427 for the year 1989, pertaining to the application of collective ownership of economic units: This law was issued with an aim to transfer the public companies owned by a societies into collectively owned companies (cooperative companies owned by individuals); it defined its activities and operations. Consequently, all privately owned companies and entities became subject to this law, including the banks, investment and financing companies.

2. Law 9 for the year 1992, on practising economic activities: The second clause of this law stipulated that individuals are allowed 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, as well as 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 9 practised in any of the following forms: partnership companies- public companies and entities- cooperatives- family businesses- individual owned business.

This law also defined the value of stock owned by the decision makers in cooperative companies, on the condition that they do not exceed 100 LYD, according to the following regulations.

I. Individuals in cooperative companies with a capital that exceeds 0.5 million LYD may not own more than 12% of the total number of stock.

II. Individuals in cooperative companies with a capital that exceeds 0.5 million LYD may not own more than 10% of the total number of stock, while limiting an individual's ownership of assets and branches to 15% of the total number of stock.

III. Individuals in cooperative companies with a capital that exceeds one million LYD, may not own more than 8% of the total number of stock, whereas an individual's ownership of assets and branches may not exceed 10% of the total number of stock.

IV. Individuals in cooperative companies with a capital that exceeds two million LYD, may not own more than 5% of the total number of stock, whereas the establishment of cooperative companies is not allowed except through public writing.

3. Law no.1 for the year 1993, on banks and credit financing, replacing the banks law for the year 1963: This law allowed the private

ownership of commercial banks, as well as allowing citizens to establish cooperative companies (banking companies), on the condition of a company's capital equalling 10 million LYD. This law also permitted foreign banks to establish their representative agencies and offices in Libya, as well as allowing foreigners to acquire and keep bank accounts in foreign currency. Clause 13 of this law dictated that the Central Bank is responsible for buying, selling and guaranteeing the bonds and stock issued by the general treasury, payable within the period of 15 years at least. The Libyan Central Bank is the primary and secondary market for such tools, as after buying them from the treasury at 6% for bonds and 5.5% for treasury permits, the investment bank resells them. The Libyan legislator announced the selling to accountable individual through the Central Bank, excluding normal people, as commercial and industrial banks invest in these tools and the Central Bank gains an annual interest rate of 0.125% of the gross value of the issued stock in cases of selling and buying. The bonds and stocks are renewed at due dates, after discounting interest for the general treasury. The law also allows any commercial bank to liquidate any of those tools in case of a need for cash before the due date of the bonds.

4. The People's Committee Decree 300 for the year 1993 on the regulations of ownership of buildings, companies and public economic units: The first clause of the first chapter dictates that ownership sentences must be applied as follows.

I. Public institutions, buildings and companies.

II. Partnership companies that are fully or partially owned by the state or public figures.

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

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

I. Granting ownership of the entity's stock to normal or accountable individuals.

II. Granting full ownership of the entity and its stock.

III. Liquidating the entity and ending its legal existence.

The issuance of the aforementioned legislations played an essential role in the expansion of the contribution of the private sector, a fact which can be realised by looking at the growing rates of private investment in relation to total investments, from 9.8% in 1989 to 24.6% in 1997. Total national investment in the Libyan economy also reached 21565.5 million LYD during the period 1970-1997, with 17899.4 million LYD 88.1% to the public sector and 11.9% to the private sector.

However, the issued legislations were limited to finding 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:

1. The People's Committee's Decree 183 for the year 2001 on undertaking the ownership program of public companies and economic units.

2. Decree 1998 for the year 2001 on the establishment of the General Agency of Ownership of Companies and Public Economic Units: This association undertook the responsibility for transferring the ownership of economic units from the Public Sector to the People's Sector. The tenth clause of this law dictated that Commercial Banks and other legally

authorised agencies may act as mediators to handle the buying and selling of economic units of stock owned by the worker, without the right to own any of the traded stock. The agency will arrange the setting of the necessary rules and regulations with the Central Bank to put in motion the sentences of this clause.

This law presented a clear message to allow the trading of pre-owned economic units of stock, and set matters in motion for the establishment of a financial market. A clearer invitation to establish a financial market in Libya came in the Law 21 for the year 2001, stating sentences on the practice of economic activities and execution regulations. The tenth clause of this law dictated that the Board of the General Committee decide upon certain agencies to form a stock market according of the conditions and procedures defined by the regulations of this law.

1. The Libyan Central Bank Decree 49 for the year 2001 on the adjustment and standardisation of the LYD price at 0.608 of private checking accounts one LYD, starting from 01/01/2001: In the past there had been three prices for the Libyan dinar, the official price, the private price and the black market price. The standardisation of the LYD price contributed directly to the elimination of the currency black market, as foreign currencies became available without any market resistance. This also contributed to the flow of Libyan products to the outside world and gave investors the necessary trust to pump their capitals into the Libyan economy.

2. The General Financial People's Committee Treasurer Decree 1 for the year 2002, on the adjustment of the customs tariff: this eliminated the custom tariffs on Arab manufactured products for a period of ten years. This goes further to support the prediction that Arab-Libyan trade is to become a free one, especially among those countries which signed this tariffs agreement by the year 2008.

3. Law 21 for the year 2001 on defining the minimum limit of shareholders in shareholder companies: By now, it had become permissible to establish a shareholders company with 25 shareholders, if the total capital is not more than one million LYD. This positive step facilitated the establishment of shareholder companies for individuals, as the cancelled Law 8 for the year 2001 had assumed a minimum of 500 shareholders for the establishment of a shareholders company, which had presented an obstacle against the formation of such companies.

4. Law 9 for the year 2001 on the organisation of border trade and free zones.

5. The People's Committee Decree 70 for the year 2002 on the protection of the People's entities that are not administered by owners and the protection of owners' rights.

6. Decree 17 for the year 2003 on the re-adjustment of the price of the LYD.

7. General Peoples' Committee Decree 313 for the year 2003, on the transfer of 360 companies from public to shareholders and cooperative ownership, during the period, 01/01/2004 to 31/12/2008. The following items have been finalised:

I. The ownership of 41 companies and economic units has been totally transferred with a total asset value of 54,222,887,000 LYD to 282 total producers and 4591 shareholders.

II. 55 companies and economic units for shareholding.

III. 80 companies and economic units under evaluation.

IV. Stock for sale through the Central Bank of Libya during the next period:

- I. Arab Cement Company
- II. Libyan Cement Company
- III. Grinders & Feed Company
- IV. Tractors Company

8. Law 11 for the year 2004 on the Income Tax.

9. Law 1 for the year 2004 on the addition and adjustment of a number of rulings of the Law 21 for the year 2001 on different economic activities. This law facilitated the establishment of shareholding companies, by allowing them to issue carrier stock, not only in name. It is also expected that these companies will be allowed to lower the minimum limit of shareholders and increase the percentage of individual holdings, than previous numbers decreed by the Law 100 for the year 2001.

10. General People's Committee Decree 100 for the year 2004, on the privatisation of 126 economic units in the form of cooperatives spread among the governorates to apply the procedures of transfer of ownership, as shown in Table 4.

This new economic reform stipulated the establishment of shareholding companies, which are relied upon to lead economic reform in all sectors. The whole process took 12 years to reach the current state, starting with the Law 9 for the year 1992, followed by the Law 8 for the year 2001, then the Law 21 for the year 2001 and the Law 1 for the year 2004. All these laws 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 than previously dictated in Law 21 for the year 1369.

Privatisation programme

The General People's committee is responsible for the principles and objectives of the transfer of ownership, as it is one of the economic reform programs aiming towards expansion of the ownership base and restructuring the economic activities according to the direction of the Libyan government to take measures in reconsidering state-owned companies and replacing them with partnerships and joint stock companies. The launching point for this reform appears at the end of the eighties and at the beginning of the nineties when National Socialism emerged as a substitute for state socialism in Libya. It started with the Law no.8 for 1988 regulating economic activities, followed by Law no.9 for 1992 concerning the 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 relationship, because financial markets provide funds for privatised establishments, and help in evaluating public establishment according to the value of issued stock and demand and supply mechanism in the market. For comparison purposes, in a study carried out by the Egyptian council of ministers, Egypt started its privatisation policy in 1991 by declaring the sale of the public sector companies to the private sector. There were many factors behind the privatisation policy, such as economic reform, and paying off public sector's debts that reached 170 millions L.E. at the end of April 1998. The Egyptian government put 290 public companies for sale; 163 of them were either losing, or troubled companies. Their

NO	Governorate	Shareholding Companies	Cooperatives	Total	Total Asset
1	Tripoli	9	4	13	5076620
2	Tagoraa	3	4	7	3171412
3	Tarhouna & Maslata	1	3	4	7273679
4	Bin Ghazi	9	-	9	18136541
5	Al-Marg	-	2	2	402921
6	Masrata	2	2	4	8796214
7	Al-Markab	3	10	13	5240764
8	Bani-Walid	-	3	3	644629
9	Darna	-	2	2	490519
10	Al-Gabal Al-Akhdar	-	3	3	2335691
11	Al-Batnan	-	4	4	436944
12	Al-Koba	-	2	2	520254
13	Sert	1	6	7	1725376
14	Al-Gifra	-	1	1	48228
15	Al-Zawya	1	1	2	1961425
16	Al-Niqat Al-Khams	1	11	12	7143061
17	Sibrata & Serman	-	2	2	1828953
18	Sabha	2	4	6	3234584
19	Marzaq	-	1	1	449567
20	El-Shatby Valley	-	1	1	319046
21	Al-Hayat Valley	-	2	2	535925
22	Al-Gifara	1	8	9	6832925
23	Gheryan	2	5	7	11918201
24	Yafren	-	3	3	695339
25	Gedames	-	4	4	865088
26	Agdabya	-	2	2	1970751
27	Naloot	-	1	1	502255
Total		35	91	126	75811422
Average unit value		145661	272855		

Table 4: Distribution of public economic units decreed for privatisation by the General People's Committee [34].

value was estimated at 90 millions L.E., and they were indebted by 20 millions L.E., which equal 71 millions US\$ [35,36]. In Saudi Arabia, the government decided covering the budget deficit reaching 44 millions SAR in 1999 by using a well studied program for privatising some companies in the public sector, as announced by official sources at the end of 1999 [37]. In Lebanon, privatisation started in 1992 by forming a privatisation committee to study the conditions of public establishments, and the capability of transferring to the private sector, aiming at lowering the public debt that reached 16 millions US\$ in October 1998. The mobile phone was the first segment to join the private sector, followed by land line phones and other services [38].

Senina and Shamiya [39] explained that privatisation in Libya is a result of local economic conditions characterised by the fixed economic base and reliance on a sole economic resource which is 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 show that the percentage of losing production units in the food industries sector reached 89% in 1987, in constructions sector reached 100%, and in engineering and electrical power establishments sector reached 50% . For instance, governments of many Arab countries used financial markets to transfer the ownership of the public sector to the private sector. In 1992, as a primary experiment, the Egyptian government issued the stock of some public companies in the market as a step towards privatisation. The success the experiment encouraged the Egyptian government to gradually issue more of the public sector's stock in the market to prevent monopolistic practices. The government assigned 10% of the shares of each company to the company's employees, which was considered a positive point in these experiments [40]. In Kuwait, the financial market was employed in privatising the public sector, aiming at enhancing the ownership base and promoting the local financial market. Dahel [40] point that this method is characterised by *"a great deal of transparency, because it promotes the purchase operations, and the companies' financial lists are published and appended with the terms of sale in the financial market"*.

However, transfer of ownership in Libya started in 1987 by sharing the returns on investment with the employees: profits are divided among the elements of production (worker, machine, capital) according to a specific accounting system. The transfer was governed by the People's Committee decree no.447 for 1987, which is based on a chapter from the Green Book (partners not workers), the Law no.9 for 1985, and the People's Committee decree no.313 for 2003. The transfer process was carried out as follows:

1. Ownership was transferred to employees
2. It took the form of exemplary partnerships
3. It was sold by its book value with annual instalments according to the return on the sold unit.
4. Total value of sold assets was 98 millions LYD.

The most important achievements of this phase are:

1. 30% of the national labour force that were employed by the public sector, moved to the private sector.
2. Recovery of nearly 80% of the assets owned.

The number of transformed units reached 295 units; the value of their assets equalled 98.000.000 LYD. The transformation process continued from 1987 to 1992 as shown in Table 5, which had many positive results such as the retrieval of 75% of the assets' value owned

Sectors	Number of Units	Value of Assets
Industrial sector	150	52.000.000
Agricultural sector	50	6.000.000
Marine fisheries sector	50	29.000.000
Live stock sector	45	11.000.000
Total	295	98.000.000

Table 5: Transfer of ownership of a number of factories and production units during the 1987-1992 period [41].

by these units, including the transfer of 30.000 products to the national sector (Table 5).

After stopping the transfer process for 8 years from 1992 to 2000, it resumed after the decree of the General People's Committee no.313 for 2003 approving the public sector's restructuring program and the enhancement of the ownership base. The Committee also issued the list of designated public companies and economic units' no.31 for the year 2003, including a time frame for the transfer process guided by a legal and administrative frame work on the partial and overall levels. The ownership was transferred from 360 economic units in to the agricultural, industrial, livestock and marine fisheries sectors; the value of their total assets equals 8 million LYD, and over 100.000 employees work in these economic units. The program will be executed over a period of 5 years from 2004 to 2008, in three stages according to the following Table 6.

First stage: This stage aimed at transforming the production units that are easily marketed to the private sector. They included 260 units to be transferred during the 27 months, which end by the end of 2005. The designated units represent 72% of the total number of units included in the transformation process, accounting for 32.5% of the total value of assets, which equal 2.8 million LYD. Over 59.000 employees work in these units. Fifty two% of the transferred units took the form of partnerships, 36.5% became joint stock companies, 4.5% became joint investments, and 3.8% were sold to individuals. The program put 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 1/1/2004 to 31/12/2005 many units were privatised as follows, General People's Committee [34]:

1. 46 economic units that can't be developed.
2. 10 agricultural projects were divided and sold as farms.
3. 12 units were sold to Libyan and foreign investors as joint investments.
4. 192 units will be able to continue its activities but after elevating financial burdens imposed by banking sector, social security fund, taxes, customs, and electrical power company, which hindered its production. The debts of these units will be covered by the National Production Support Fund and the State's Treasury. The total amount of public debt on these units reached 549 million LYD.

In addition, in Tunisia, for example, the total number of privatisation operation was 167 operations in 1987, including 92 establishments, which created 550 additional job opportunities, and 8 establishments let go 300 of their employees. In Algeria, the hotels were the first target of the privatisation process, where 600 hotels were sold to private investors and afterwards 12 factories were put for sale and others.

Second stage: This stage aimed to transfer its ownership from 1/7/2004 to 30/6/2007. It means that it will take 3 years to transfer these units, which will interfere with the first phase and continue one and a

Stages Activity	First stage	Second stage	Third stage	Total
Industrial	145	41	18	204
Agricultural	28	4	24	56
Live stock	11	-	11	82
Marine fisheries	16	1	1	18
Total	260	46	54	360

Table 6: Number and classification of units that will be transformed from 2004 to 2008 period [33].

half year after it. Forty six companies will be transformed during this phase, which are medium to large companies, representing 13% of the designated companies in the program. The total value of assets of these production units' equal 1.2 million LYD, representing 22.5% of the total assets in the program, employing 14,000 employees. Fourteen units will be jointly invested by foreign investors and the other 2 units are already joint investments, which require transferring the ownership of the Libyan investment to the national sector.

Third stage: This stage started with the issuance of Law no.9 for 1985, which regulates partnerships and the economic restructuring and reforming process. The Law no.8 for 1988 was issued to regulate the economic activities in general, followed by the Law no.9 for 1992 concerning the 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% in 1985 to 24% in 1997 [42].

This stage targets 54 productive units, representing 15% of the total number of units in the program; their total assets equal 4 million LYD, accounting for 45% of the total assets in the program and employing 27.000 workers. The number of companies in the second stage is 46; most of them are large companies with a large number of employees to be laid off. In addition to the 7500 employees who will be laid off, thousands will be laid off in the first group of the first, second and third phases, General People's Committee for the production [34]. All these units will be put for sale for joint investments during the first phase from 1/1/2004 to 31/12/2006. The program is executed by the Higher Committee for managing the Transfer of Ownership Program according to decree no.92 for 2000, also decree no.93 for 2003 that handles the supervision and follow-up on the transfer of ownership process in governmental and other economic sectors. The Authority for encouraging Foreign Investment handles the program of restructuring joint investments, which was guided by a number economic policy solving some expected problems during the execution stage.

Conclusion

This study has given a comprehensive analysis of the macro environment of Libya and the performance and the evolution of starting the financial sector development in Libyan economy. Since 1969 after the revolution, the Libyan economy witnessed three major systems: nationalism and socialism period, an open door policy period and late the economic reform programme. The Libyan economy has experienced rapid expansion during the period of the 1970s and the early part of the 1980s as real GDP grew by more than 10% on average. This expansion was largely financed by the oil revenue sector. In the mid-1980s the part of economic growth slowed and Libyan government started to experience reversionary trends. These recessionary trends were the collapse of oil prices and the Gulf war in 1990/1991. After the lifting of the economic embargo on Libya in 2003, Libya has entered a new economic phase carrying the labels of economic openness and freedom. Ever since that time, the Libyan government undertook an ambitious plan, in order to expand the ownership base by the sale of

establishments previously owned by the state to the private sector and directing its activities to the economic reform program. One of the main indicators of this transformation, as mentioned previously, is the privatisation of more than 360 major economic units over three stages, starting from 2004 to 2008 within the framework of privatisation of these projects. Libyan Airlines has been transformed to a 100% private company, after being divided into three companies. Privatization has also penetrated the banking sector, where the Unity Bank and the Sahari Bank have been privatised, in addition to the establishment of new banks such as the Development Bank. Debit and credit cards have been introduced to the market, and new insurance agencies have been founded, for example the United Insurance Co. that is currently competing with the government's insurance agencies.

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